On February 11, 2011, the Company issued 20,000,000 shares of its common stock to Gemini Master Fund, Ltd. pursuant to a settlement agreement and mutual release between the Company and the investor.

In connection with the foregoing, the Company relied upon the exemption from securities registration afforded by Rule 506 of Regulation D as promulgated by the United States Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Securities Act") and/or Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The issuances were made to a limited number of persons, all of whom were accredited investors, and transfer of the securities was restricted in accordance with the requirements of the Securities Act of 1933.

Use of Proceeds from Registered Securities .

Not Applicable.

Item 6. Selected Financial Data

	For the Year Ended December 31, 2010	2009	2008	2007 (restated)	2006 (restated)
Revenue	$ 725,044	$ 1,415,979	$ 787,106	$ 647,349	$ 440,842
Net loss	(54,373,332)	(36,758,208)	(33,903,513)	(15,898,725)	(16,861,789)
Net loss per common share:					
Basic	$ (0.04)	$ (0.07)	$ (0.14)	$ (0.26)	$ (0.58)
Diluted	$ (0.04)	$ (0.07)	$ (0.14)	$ (0.26)	$ (0.58)

	As of December 31, 2010	2009	2008	2007 (restated)	2006 (restated)
Total assets	$ 19,054,152	$ 5,088,008	$ 2,577,778	$ 8,607,045	$ 16,989,718
Long-term debt:					
2005 Convertible debenture and embedded derivatives, net of discounts	$ -	$ -	$ 85,997	$ 1,276,871	$ 10,466,735
2006 Convertible debenture and embedded derivative, fair value	-	-	1,993,354	3,047,491	13,238,476
2007 Convertible debenture and embedded derivatives, fair value	-	-	7,706,344	3,482,542	-
2008 Convertible debenture and embedded derivatives, fair value	-	-	4,066,505	-	-
Convertible promissory notes and embedded derivatives, fair value	-	-	1,757,470	-	-
Amended and restated convertible debentures, net of discounts	-	7,605,107	-	-	-
Convertible promissory notes, net of discounts	2,780	744,417	-	-	-
2009 Convertible promissory notes, net of discounts	132,680	281,271	-	-	-
Total Long-term debt	$ 135,460	$ 8,630,795	$ 15,609,670	$ 7,806,904	$ 23,705,211
Redeemable preferred stock	$ 1,272,441	$ 908,195	$ -	$ -	$ -
Cash dividends delcared per common share	$ -	$ -	$ -	$ -	$ -

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements in this annual report on Form 10-K that are not historical in fact constitute "forward-looking statements." Words such as, but not limited to, "believe," "expect," "anticipate," "estimate," "intend," "plan," and similar expressions are intended to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors based on the Company's estimates and expectations concerning future events that may cause the actual results of the Company to be materially different from historical results or from any results expressed or implied by such forward-looking statements. These risks and uncertainties, as well as the Company's critical accounting policies, are discussed in more detail under "Management's Discussion and Analysis—Critical Accounting Policies" and in periodic filings with the Securities and Exchange Commission. The Company undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

You should read the following discussion of our financial condition and results of operations together with the audited financial statements and the notes to the audited financial statements included in this annual report. This discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results may differ materially from those anticipated in these forward-looking statements.

Executive Level Overview

We are a biotechnology company focused on developing and commercializing human stem cell technology in the emerging fields of regenerative medicine and stem cell therapy.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We regularly review our estimates and assumptions, which are based upon historical experience, as well as current economic conditions and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of certain assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions.

We believe that the following critical accounting policies are affected by significant judgments and estimates used in the preparation of our consolidated financial statements.

Fair Value Measurements — For certain financial instruments, including accounts payable, accrued expenses and notes payable, the carrying amounts approximate fair value due to their relatively short maturities.

On January 1, 2008, we adopted ASC 820-10, *"Fair Value Measurements and Disclosures."* ASC 820-10 defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The carrying amounts reported in the consolidated balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels of valuation hierarchy are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

We analyze all financial instruments with features of both liabilities and equity under ASC 480, *"Distinguishing Liabilities From Equity"* and ASC 815, *"Derivatives and Hedging."* Derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as adjustments to fair value of derivatives. The effects of interactions between embedded derivatives are calculated and accounted for in arriving at the overall fair value of the financial instruments. In addition, the fair values of freestanding derivative instruments such as warrant and option derivatives are valued using the Black-Scholes model.

We did not identify any other non-recurring assets and liabilities that are required to be presented in the consolidated balance sheets at fair value in accordance with ASC 815.

Revenue Recognition— Our revenues are generated from license and research agreements with collaborators. Licensing revenue is recognized on a straight-line basis over the shorter of the life of the license or the estimated economic life of the patents related to the license. License fee revenue begins to be recognized in the first full month following the effective date of the license agreement. Deferred revenue represents the portion of the license and other payments received that has not been earned. Costs associated with the license revenue are deferred and recognized over the same term as the revenue. Reimbursements of research expense pursuant to grants are recorded in the period during which collection of the reimbursement becomes assured, because the reimbursements are subject to approval.

Stock Based Compensation— We record stock-based compensation in accordance with ASC 718, "Compensation – Stock Compensation." ASC 718 requires companies to measure compensation cost for stock-based employee compensation at fair value at the grant date and recognize the expense over the employee's requisite service period. We recognize in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and non-employees.

Recent Accounting Pronouncements

On July 1, 2009, the Company adopted Accounting Standards Update ("ASU") No. 2009-01, "Topic 105 - Generally Accepted Accounting Principles - amendments based on Statement of Financial Accounting Standards No. 168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles" ("ASU No. 2009-01"). ASU No. 2009-01 re-defines authoritative GAAP for nongovernmental entities to be only comprised of the FASB Accounting Standards Codification™ ("Codification") and, for SEC registrants, guidance issued by the SEC. The Codification is a reorganization and compilation of all then-existing authoritative GAAP for nongovernmental entities, except for guidance issued by the SEC. The Codification is amended to effect non-SEC changes to authoritative GAAP. Adoption of ASU No. 2009-01 only changed the referencing convention of GAAP in Notes to the consolidated financial statements.

In August 2009, the FASB issued Accounting Standards Update 2009-05, Fair Value Measurements and Disclosures (ASC 820) Measuring Liabilities at Fair Value. This guidance clarifies that in circumstances in which a quoted price in an active market for an identical liability is not available, a reporting entity is required to measure fair value of such liability using one or more of the of the techniques prescribed by the update. This guidance is effective for the first reporting period beginning after issuance, which is the period ending December 31, 2009. The impact of the adoption of this guidance was not significant to our consolidated financial statements.

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2010-06, *Improving Disclosures about Fair Value Measurements* ("ASU No. 2010-06"). The new standard addresses, among other things, guidance regarding activity in Level 3 fair value measurements. Portions of ASU No. 2010-06 that relate to the Level 3 activity disclosures are effective for the annual reporting period beginning after December 15, 2010. The Company will provide the required disclosures beginning with the Company's Annual Report on Form 10-K for the year ending December 31, 2011. Based on the initial evaluation, we do not anticipate a material impact to our financial position, results of operations or cash flows as a result of this change.

On March 5, 2010, the FASB issued ASU No. 2010-11 Derivatives and Hedging Topic 815 "Scope Exception Related to Embedded Credit Derivatives." This ASU clarifies the guidance within the derivative literature that exempts certain credit related features from analysis as potential embedded derivatives requiring separate accounting. The ASU specifies that an embedded credit derivative feature related to the transfer of credit risk that is only in the form of subordination of one financial instrument to another is not subject to bifurcation from a host contract under ASC 815-15-25, "*Derivatives and Hedging — Embedded Derivatives — Recognition*." All other embedded credit derivative features should be analyzed to determine whether their economic characteristics and risks are "clearly and closely related" to the economic characteristics and risks of the host contract and whether bifurcation is required. The ASU became effective for the Company on July 1, 2010. The adoption of this ASU did not have an impact on our consolidated financial statements.

RESULTS OF OPERATIONS

Comparison of the Years Ended December 31, 2010 and 2009

	2010		2009	
	Amount	% of Revenue	Amount	% of Revenue
Revenue	$ 725,044	100.0%	$ 1,415,979	100.0%
Cost of Revenue	216,600	29.9%	500,899	35.4%
Gross profit	508,444	70.1%	915,080	64.6%
Research and development expenses and Grant reimbursements	7,461,426	1029.1%	3,394,700	239.7%
General and administrative expenses	15,506,191	2138.7%	3,439,085	242.9%
Change in estimate of accrued liabilities	(1,263,009)	-174.2%	-	0.0%
Loss on settlement of litigation	11,132,467	1535.4%	4,903,949	346.3%
Non-operating income (expense):	(22,044,701)	-3040.5%	(25,935,554)	-1831.6%
Net loss	$ (54,373,332)	-7499.3%	$ (36,758,208)	-2596.0%

Revenue

Revenue relates to license fees and royalties collected that are being amortized over the period of the license granted, and are therefore typically consistent between periods. The decrease in revenue during the year ended December 31, 2010, was due to license agreements that were terminated in 2009 that were recognized in 2009 revenue. During 2009, we recognized approximately $382,000 in license fee revenue for licenses that were terminated in 2009. Further, we received $2,600,000 in license fees in 2009, and of that we recognized an additional $231,000 in license fee revenues during the year ended December 31, 2009. We expect that our collaboration efforts with CHA Biotech in the SCRMI joint venture will provide us valuable opportunities to develop and license our technologies.

Research and Development Expenses and Grant Reimbursements

Research and development expenses ("R&D") consists mainly of facility costs, payroll and payroll related expenses, research supplies and costs incurred in connection with specific research grants, and for scientific research. R&D expenditures increased from $3,531,540 in 2009 to $8,439,343 for 2010. The increase in R&D expenditures during the 2010 as compared to 2009 because during 2010, the US Food and Drug Administration ("FDA") cleared our Investigational New Drug ("IND") application to immediately initiate a Phase I/II multicenter clinical trial using retinal cells derived from human embryonic stem cells (hESCs) to treat patients with Stargardt's Macular Dystrophy (SMD), one of the most common forms of juvenile macular degeneration in the world. The decision removes the clinical hold that the FDA had placed on the trial. Stargardt's Macular Dystrophy causes progressive vision loss, usually starting in children between 10 to 20 years of age. Eventually, blindness results from photoreceptor loss associated with degeneration in the pigmented layer of the retina, called the retinal pigment epithelium (RPE).

The Phase I/II trial will be a prospective, open-label study that is designed to determine the safety and tolerability of the RPE cells following sub-retinal transplantation to patients with advanced SMD. A total of twelve patients will be enrolled in the study at multiple clinical sites. The sites which are currently under consideration are the Jules Stein Eye Institute at UCLA (headed by Dr. Steven Schwartz); the Casey Eye Institute in Portland, Oregon (headed by Dr. Peter Francis of the Oregon Health Sciences University); the University of Massachusetts Memorial Medical Center in Worcester, Massachusetts (headed by Dr. Shalesh Kaushal, Chair of the Department of Ophthalmology); the UMDNJ -- New Jersey Medical School in Newark, New Jersey (headed by Dr. Marco Zarbin, Chair, Institute of Ophthalmology and Visual Science); additional sites may be considered.

Further, in January 2011, the FDA cleared our IND application to treat Dry Age-Related Macular Degeneration ("AMD") using retinal pigment epithelial (RPE) cells derived from human embryonic stem cells (hESCs). ACT is now permitted to initiate a Phase I/II multicenter clinical trial to treat patients with Dry AMD, the most common form of macular degeneration in the world. There are currently no treatments available for this prevalent disease of an aging global population. Dry AMD, representing a substantial global market opportunity and afflicts between 10-15 million Americans.

Our research and development expenses consist primarily of costs associated with basic and pre-clinical research exclusively in the field of human stem cell therapies and regenerative medicine, with focus on development of our technologies in cellular reprogramming, reduced complexity applications, and stem cell differentiation. These expenses represent both pre-clinical development costs and costs associated with non-clinical support activities such as quality control and regulatory processes. The cost of our research and development personnel is the most significant category of expense; however, we also incur expenses with third parties, including license agreements, sponsored research programs and consulting expenses.

We do not segregate research and development costs by project because our research is focused exclusively on human stem cell therapies as a unitary field of study. Although we have three principal areas of focus for our research, these areas are completely intertwined and have not yet matured to the point where they are separate and distinct projects. The intellectual property, scientists and other resources dedicated to these efforts are not separately allocated to individual projects, but rather are conducting our research on an integrated basis.

We expect that research and development expenses will increase in the foreseeable future as we add personnel, expand our pre-clinical research, begin clinical trial activities, and increase our regulatory compliance capabilities. The amount of these increases is difficult to predict due to the uncertainty inherent in the timing and extent of progress in our research programs, and initiation of clinical trials. In addition, the results from our basic research and pre-clinical trials, as well as the results of trials of similar therapeutics under development by others, will influence the number, size and duration of planned and unplanned trials. As our research efforts mature, we will continue to review the direction of our research based on an assessment of the value of possible commercial applications emerging from these efforts. Based on this continuing review, we expect to establish discrete research programs and evaluate the cost and potential for cash inflows from commercializing products, partnering with others in the biotechnology or pharmaceutical industry, or licensing the technologies associated with these programs to third parties.

We believe that it is not possible at this stage to provide a meaningful estimate of the total cost to complete our ongoing projects and bring any proposed products to market. The use of human embryonic stem cells as a therapy is an emerging area of medicine, and it is not known what clinical trials will be required by the FDA in order to gain marketing approval. Costs to complete could vary substantially depending upon the projects selected for development, the number of clinical trials required and the number of patients needed for each study. It is possible that the completion of these studies could be delayed for a variety of reasons, including difficulties in enrolling patients, delays in manufacturing, incomplete or inconsistent data from the pre-clinical or clinical trials, and difficulties evaluating the trial results. Any delay in completion of a trial would increase the cost of that trial, which would harm our results of operations. Due to these uncertainties, we cannot reasonably estimate the size, nature nor timing of the costs to complete, or the amount or timing of the net cash inflows from our current activities. Until we obtain further relevant pre-clinical and clinical data, we will not be able to estimate our future expenses related to these programs or when, if ever, and to what extent we will receive cash inflows from resulting products.

General and Administrative Expenses

General and administrative expenses for 2010 compared to 2009 increased by $12,067,106 to $15,506,191 in 2010. This expense increase was primarily a result of shares of our stock issued to our Chief Executive Officer and directors, and stock options issued to employees, for a total increase in G&A salaries, bonuses and option compensation of $10.8 million. Further, legal fees were higher in 2010 because we retained council to defend the Company in legal matters (see "Commitments and Contingencies" footnote to our accompanying consolidated financial statements, as well as the "Legal Proceedings" section filed in this Form 10-K).

Change in Estimate of Accrued Liabilities

We recognized income of $1,263,009 related to reversals in our estimates of accrued liabilities during the year ended December 31, 2010. This amount relates to prior accrued liabilities where our estimate was adjusted based on new information as it became available. This amount has been separately classified in operating expenses in the accompanying consolidated statement of operations.

Loss on Settlement of Litigation

In 2010, we settled a lawsuit with an investor, whereby the Company delivered to the investor 49,220,665 shares of its common stock. Further, on September 30, 2010, under the terms of a final settlement and mutual release with the same investor, we exchanged a new convertible debenture to the investor in exchange for the investor's outstanding convertible debenture. The terms of the new convertible debenture are the same as the amended and restated debentures, except that the amounts under the debenture are due and payable on or before December 31, 2010 and June 30, 2011. Concurrently with the settlement and release, all common stock purchase warrants previously issued to the investor were cancelled (23,701,263 warrants in total) and the legal actions were dismissed. We recorded a loss on settlement in the amount of $3,132,300 during the year ended December 31, 2010 in its accompanying statement of operations.

On December 22, 2010, Optimus CGII, Ltd. ("Optimus") purchased a claim previously brought against the Company in a civil action by Alexandria Real Estate-79/96 Charlestown Navy Yard ("ARE"). In that action, ARE alleged that it was unable to relet the premises and therefore seeking rent for the vacated premises since September 2008. ARE also sought certain clean-up and storage expenses. On December 23, 2010, Optimus and the Company settled the claim in the amount of $8,000,167. During December 2010, we issued 55,688,368 shares of the Company's common stock to Optimus in full settlement of this claim. Accordingly, we recognized loss on settlement in the amount of $8,000,167 in our accompanying consolidated statements of operations for the year ended December 31, 2010. This settlement ended all claims previously brought against the Company by ARE, and Optimus as bona fide claimant.

In 2009, we settled $505,199 in accounts payable through the issuance of 39,380,847 shares of our common stock. We recorded a loss on settlement of $4,793,949 in our accompanying statements of operations for the year ended December 31, 2009.

On June 30, 2009, an investor submitted a conversion notice in the principal amount of $150,000 into 7,500,000 shares of common stock at $0.02 per share. At that time, we did not have sufficient authorized shares to satisfy this conversion notice. On July 6, 2009, by means of a settlement between the two parties, we agreed to deliver the 7,500,000 shares of our common stock no later than September 25, 2009. We delivered the 7,500,000 shares on September 25, 2009. Further, we agreed to provide the investor with an additional $110,000 principal, which is to be upon the same terms and conditions as the original 2008 debenture. Accordingly, we recognized a loss on settlement in the amount of $110,000 during the year ended December 31, 2009.

Other Income (Expense)

Other income (expense), net, for 2010 and 2009 was ($22,044,701) and ($25,935,554), respectively. The change of ($3,890,853) is primarily due to an increase of $2,626,586 in finance costs during 2010 and an increase in interest expense of $2,535,313. Adjustments to fair value of derivative liabilities during 2010 was ($6,209,898) compared to $23,103,668 in 2009. In periods when the share price increases, the derivative securities become more attractive to exercise or in-the-money, and therefore the value of the derivative liabilities increases. Additionally, in 2009, we recognized charges related to repricing derivative liabilities in the amount of ($30,316,708). These repricing charges were incurred in connection with the modification of our debt during 2009. We also recognized $8,200,984 in loss on extinguishment of convertible debentures and note, relating to the modification of our debt during 2009.

Interest expense including late fees was $11,726,120 and $9,190,807, for the years ended 2010 and 2009, respectively. The increase in interest expense of $2,535,313 is due to the additional debt that was issued in 2010. Further, the interest expense in 2010 was greater than in 2009 because we amortized remaining debt discounts on the 2005-2008 debentures. These debentures were repaid in full by December 31, 2010.

Comparison of the Years Ended December 31, 2009 and 2008

	2009		2008	
	Amount	% of Revenue	Amount	% of Revenue
Revenue	$ 1,415,979	100.0%	$ 787,106	100.0%
Cost of Revenue	500,899	35.4%	765,769	97.3%
Gross profit	915,080	64.6%	21,337	2.7%
Research and development expenses and Grant reimbursements	3,394,700	239.7%	8,530,408	1083.8%
General and administrative expenses	3,439,085	242.9%	5,009,418	636.4%
Loss on settlement of litigation	4,903,949	346.3%	5,436,137	690.6%
Non-operating income (expense):	(25,935,554)	-1831.6%	(14,948,887)	-1899.2%
Net loss	$ (36,758,208)	-2596.0%	$ (33,903,513)	-4307.4%

Revenue

Revenues relates to license fees and royalties collected that are being amortized over the period of the license granted, and are therefore typically consistent between periods. The increase in revenue during the year ended December 31, 2009, was due to more new licenses being granted as compared to the year ended December 31, 2008 as well as license agreements that were terminated in 2009 that were recognized in 2009 revenue. During 2009, we recognized approximately $382,000 in license fee revenue for licenses that were terminated in 2009. Further, we received $2,600,000 in license fees in 2009, and of that we recognized an additional $231,000 in license fee revenues during the year ended December 31, 2009 as compared with 2008. We expect that our collaboration efforts with CHA Biotech in the SCRMI joint venture will provide us valuable opportunities to develop and license our technologies.

Research and Development Expenses and Grant Reimbursements

Research and development expenses ("R&D") consists mainly of facility costs, payroll and payroll related expenses, research supplies and costs incurred in connection with specific research grants, and for scientific research. R&D expenditures declined from $8,635,577 in 2008 to $3,531,540 for 2009. The decline in R&D expenditures during the 2009 as compared to 2008 is primarily due to the fact that we closed our Charlestown, Massachusetts and Alameda, California facilities at the end of May 2008 and that we laid off a majority of our employees.

Our research and development expenses consist primarily of costs associated with basic and pre-clinical research exclusively in the field of human stem cell therapies and regenerative medicine, with focus on development of our technologies in cellular reprogramming, reduced complexity applications, and stem cell differentiation. These expenses represent both pre-clinical development costs and costs associated with non-clinical support activities such as quality control and regulatory processes. The cost of our research and development personnel is the most significant category of expense; however, we also incur expenses with third parties, including license agreements, sponsored research programs and consulting expenses.

We do not segregate research and development costs by project because our research is focused exclusively on human stem cell therapies as a unitary field of study. Although we have three principal areas of focus for our research, these areas are completely intertwined and have not yet matured to the point where they are separate and distinct projects. The intellectual property, scientists and other resources dedicated to these efforts are not separately allocated to individual projects, but rather are conducting our research on an integrated basis.

We expect that research and development expenses will increase in the foreseeable future as we add personnel, expand our pre-clinical research, begin clinical trial activities, and increase our regulatory compliance capabilities. The amount of these increases is difficult to predict due to the uncertainty inherent in the timing and extent of progress in our research programs, and initiation of clinical trials. In addition, the results from our basic research and pre-clinical trials, as well as the results of trials of similar therapeutics under development by others, will influence the number, size and duration of planned and unplanned trials. As our research efforts mature, we will continue to review the direction of our research based on an assessment of the value of possible commercial applications emerging from these efforts. Based on this continuing review, we expect to establish discrete research programs and evaluate the cost and potential for cash inflows from commercializing products, partnering with others in the biotechnology or pharmaceutical industry, or licensing the technologies associated with these programs to third parties.

We believe that it is not possible at this stage to provide a meaningful estimate of the total cost to complete our ongoing projects and bring any proposed products to market. The use of human embryonic stem cells as a therapy is an emerging area of medicine, and it is not known what clinical trials will be required by the FDA in order to gain marketing approval. Costs to complete could vary substantially depending upon the projects selected for development, the number of clinical trials required and the number of patients needed for each study. It is possible that the completion of these studies could be delayed for a variety of reasons, including difficulties in enrolling patients, delays in manufacturing, incomplete or inconsistent data from the pre-clinical or clinical trials, and difficulties evaluating the trial results. Any delay in completion of a trial would increase the cost of that trial, which would harm our results of operations. Due to these uncertainties, we cannot reasonably estimate the size, nature nor timing of the costs to complete, or the amount or timing of the net cash inflows from our current activities. Until we obtain further relevant pre-clinical and clinical data, we will not be able to estimate our future expenses related to these programs or when, if ever, and to what extent we will receive cash inflows from resulting products.

General and Administrative Expenses

General and administrative expenses for 2009 compared to 2008 decreased by $1,570,333 to $3,439,085 in 2009. This expense decrease was primarily a result of management's efforts to reduce costs and streamline operations so that we could move closer to achieving profitability. General and administrative expenses should continue to slightly decrease over the short term as we continue to streamline our operations. We expect that with the successful IND submission of our core technologies and a rebound of the U.S. and world economy there will come additional opportunities for growth and capital.

Loss on Settlement of Litigation

In 2008, we settled $603,474 in accounts payable through the issuance of 220,735,436 shares of our common stock. In 2009, we settled $505,199 in accounts payable through the issuance of 39,380,847 shares of our common stock. We recorded a loss on settlement of $4,793,949 and $5,436,137 in our accompanying statements of operations for the years ended December 31, 2009 and 2008, respectively.

On June 30, 2009, an investor submitted a conversion notice in the principal amount of $150,000 into 7,500,000 shares of common stock at $0.02 per share. At that time, we did not have sufficient authorized shares to satisfy this conversion notice. On July 6, 2009, by means of a settlement between the two parties, we agreed to deliver the 7,500,000 shares of our common stock no later than September 25, 2009. We delivered the 7,500,000 shares on September 25, 2009. Further, we agreed to provide the investor with an additional $110,000 principal, which is to be upon the same terms and conditions as the original 2008 debenture. Accordingly, we recognized a loss on settlement in the amount of $110,000 during the year ended December 31, 2009.

Other Income (Expense)

Other income (expense), net, for 2009 and 2008 was ($25,935,554) and ($14,948,887), respectively. The change of ($10,986,667) is primarily due to the ($8,200,984) loss on extinguishment of convertible debentures and note plus the ($30,316,708) charges related to repricing derivative liabilities, offset by the decrease in the adjustments to fair value of derivatives of $23,103,668 also by interest expense of $10,86,498 as compared to $26,614,761 in 2008.

Interest expense including late fees was $9,190,807 and $26,614,761, for the years ended 2009 and 2008, respectively. The decrease in interest expense is due to the additional debt that was issued in 2008 and the late fees incurred as we did not issue shares to convert the debt to equity and we do not have the cash to pay down the notes. Further, the interest expense in 2008 was greater than in 2009 because we amortized remaining debt discounts on all outstanding debentures as a result of our default on August 6, 2008.

The gain on the fair value of derivatives was $23,103,668 and $13,082,247, for the years ended 2009 and 2008, respectively. The decline in our share price in 2007 and 2008 contributed most significantly to the gain on the fair value of derivatives, as well as issuance of new debt and warrants during 2009. In periods when the share price declines, the derivative securities become less attractive to exercise or out-of-the-money, and therefore the value of the derivative liabilities declines.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated below:

	2010	2009	2008
Net cash used in operating activities	$ (9,032,932)	$ (5,142,778)	$ (2,964,820)
Net cash used in investing activities	(219,998)	(7,538)	(174,514)
Net cash provided by financing activities	22,603,501	6,872,250	2,790,122
Net increase (decrease) in cash and cash equivalents	13,350,571	1,721,934	(349,212)
Cash and cash equivalents at the end of the period	$ 15,889,409	$ 2,538,838	$ 816,904

Cash used in operating activities changed from $5,142,778 in 2009 to $9,032,932 in 2010. The change arose from changes in net income after adjusting for non-cash items, as well as less cash received from license agreements during 2010. Cash used in operating activities in 2008 was $2,964,820. The increase in cash used in operating activities from 2008 to 2009 is primarily attributable to the decrease in accrued interest during 2009, offset by income after adjusting for non-cash items as well as differences in cash received from license agreements and changes in our accounts payable.

Cash used in investing activities was minimal in 2010, 2009 and 2008, and primarily consisted of purchases of property and equipment.

Cash generated by financing activities in 2010, 2009 and 2008 arose from proceeds from new convertible debt and preferred stock that we successfully raised. We also received $719,636 in 2010 upon exercises of warrants.

As of December 31, 2010, we have $15,889,409 in cash, under $1 million in debt, and $4,636,302 in working capital. During 2010, we received the following amounts:

- $977,917 from a federal grant under the Patient Protection and Affordable Care Act of 2010 ("PPACA");
- $580,165 upon the sale of our Series A-1 preferred stock;
- Approximately $9.5 million through the sale of 1,000 shares of our Series B preferred stock;
- $4 million through the sale of our Series C preferred stock;
- $5,880,000 through the sale of convertible notes; and
- $1,685,000 upon the second close of our 2009 debenture.

We plan to fund our operations for the next twelve months primarily from the following financings:

- As of December 31, 2010, $1,581,834 is available to us upon the sale of our Series A-1 preferred stock for a maximum placement commitment of $5 million.
- As of December 31, 2010, $21 million is available to us upon the sale of our Series C preferred stock for a maximum placement commitment of $25 million.
- We continue to repay our debt financings in shares of common stock, enabling us to use our cash resources to fund our operations.

On a longer term basis, we have no expectation of generating any meaningful revenues from our product candidates for a substantial period of time and will rely on raising funds in capital transactions to finance our research and development programs. Our future cash requirements will depend on many factors, including the pace and scope of our research and development programs, the costs involved in filing, prosecuting and enforcing patents, and other costs associated with commercializing our potential products. We intend to seek additional funding primarily through public or private financing transactions, and, to a lesser degree, new licensing or scientific collaborations, grants from governmental or other institutions, and other related transactions. If we are unable to raise additional funds, we will be forced to either scale back or business efforts or curtail our business activities entirely. We anticipate that our available cash and expected income will be sufficient to finance most of our current activities for at least twelve months from the date we file these financial statements, although certain of these activities and

related personnel may need to be reduced. We cannot assure you that public or private financing or grants will be available on acceptable terms, if at all. Several factors will affect our ability to raise additional funding, including, but not limited to, the volatility of our common stock.

Contractual Obligations

At December 31, 2010, our significant contractual obligations were as follows:

	Less than One Year	One to Three Years	Three to Five Years	More Than Five Years	Total
Operating lease obligations	156,816	312,906	241,309	-	711,031
Convertible debt	316,036	123,658	-	-	439,694
Total	$ 472,852	$ 436,564	$ 241,309	$ -	$ 1,150,725

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities that would be expected to have a material current or future effect upon our financial condition or results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk is limited primarily to interest income sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because a significant portion of our investments are in short-term debt securities issued by the U.S. government and institutional money market funds. The primary objective of our investment activities is to preserve principal. Due to the nature of our marketable securities, we believe that we are not exposed to any material market risk. We do not have any derivative financial instruments or foreign currency instruments. If interest rates had varied by 10% in the year ended December 31, 2010, it would not have had a material effect on our results of operations or cash flows for that period.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Advanced Cell Technology, Inc. and subsidiary

We have audited the accompanying consolidated balance sheets of Advanced Cell Technology, Inc. and subsidiary as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Advanced Cell Technology, Inc. and subsidiary as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Advanced Cell Technology, Inc. and subsidiary's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 16, 2011 expressed an unqualified opinion on the effectiveness of Advanced Cell Technologies, Inc. and subsidiary's internal control over financial reporting.

SingerLewak LLP

Los Angeles, California
March 16, 2011

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2010 AND 2009

	December 31, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 15,889,409	$ 2,538,838
Deferred royalty fees, current portion	91,598	91,598
Prepaid expenses	-	9,054
Total current assets	15,981,007	2,639,490
Property and equipment, net	185,102	113,904
Deferred royalty fees, less current portion	295,089	386,689
Deposits	14,766	2,170
Deferred issuance costs, net of amortization of $4,152,812 and $3,535,245	2,578,188	1,945,755
TOTAL ASSETS	$ 19,054,152	$ 5,088,008
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$ 1,982,743	$ 6,172,881
Accrued expenses	4,971,304	2,031,032
Accrued settlement	3,205,856	-
Deferred revenue, current portion	506,418	805,926
Amended and restated convertible debentures, current portion, net of discounts of $0 and $585,088, respectively	-	7,605,107
Convertible promissory notes, current portion, net of discounts of $162,542 and $905,973, respectively	1,585	685,233
2009 Convertible promissory notes, current portion, net of discounts of $19,229 and $1,599,073, respectively	132,680	246,893
Embedded conversion option liabilities, current portion	537,249	6,772,200
Deferred joint venture obligations, current portion	6,870	56,602
Total current liabilities	11,344,705	24,375,874
Convertible promissory notes, less current portion, net of discounts of $122,463 and $1,150,300, respectively	1,195	59,184
2009 Convertible promissory notes, less current portion, net of disounts of $0 and $222,656, respectively	-	34,378
Embedded conversion option liabilities, less current portion	482,686	1,837,604
Warrant and option derivative liabilities	27,307,218	18,168,597
Deferred revenue, less current portion	2,298,997	5,780,389
Deferred joint venture obligations, less current portion	-	6,870
Total liabilities	41,434,801	50,262,896
Series A-1 redeemable preferred stock, $0.001 par value; 50,000,000 shares authorized, 113 and 92 shares issued and outstanding; aggregate liquidation value, net of discounts: $1,349,657 and $1,044,305, respectively	1,272,441	908,195
Commitments and contingencies		
STOCKHOLDERS' DEFICIT:		
Preferred stock, Series B; $0.001 par value; 50,000,000 shares authorized, 1,000 and 0 shares issued and outstanding	1	-
Preferred stock, Series C; $0.001 par value; 50,000,000 shares authorized, 400 and 0 shares issued and outstanding	-	-
Common stock, $0.001par value; 1,750,000,000 shares authorized, 1,439,826,362, and 663,649,294 shares issued and outstanding	1,439,826	663,649
Additional paid-in capital	166,033,976	79,829,080
Promissory notes receivable, net of discount of $3,322,630 and $0, respectively	(10,177,370)	-
Accumulated deficit	(180,949,523)	(126,575,812)
Total stockholders' deficit	(23,653,090)	(46,083,083)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 19,054,152	$ 5,088,008

The accompanying notes are an integral part of these consolidated financial statements.

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	2010	2009	2008
Revenue (License fees and royalties)	$ 725,044	$ 1,415,979	$ 787,106
Cost of Revenue	216,600	500,899	765,769
Gross profit	508,444	915,080	21,337
Operating expenses:			
Research and development	8,439,343	3,531,540	8,635,577
Grant reimbursements	(977,917)	(136,840)	(105,169)
General and administrative expenses	15,506,191	3,439,085	5,009,418
Change in estimate of accrued liabilities	(1,263,009)	-	-
Loss on settlement of litigation	11,132,467	4,903,949	5,436,137
Total operating expenses	32,837,075	11,737,734	18,975,963
Loss from operations	(32,328,631)	(10,822,654)	(18,954,626)
Non-operating income (expense):			
Interest income	16,724	4,661	7,933
Interest expense and late fees	(11,726,120)	(9,190,807)	(26,614,761)
Finance cost	(4,332,277)	(1,705,691)	(806,079)
Adjustments to fair value of derivatives	(6,209,898)	23,103,668	13,082,247
Gain (loss) on disposal of fixed assets	9,500	-	(227,543)
Gain on forgiveness of debt	197,370	598,425	-
Loss on extinguishment of convertible debentures and note	-	(8,200,984)	-
Charges related to repricing derivative liabilities	-	(30,316,708)	-
Loss on warrant re-pricing	-	(83,680)	-
Losses attributable to equity method investment	-	(144,438)	(20,930)
Charges related to issuance of 2008 convertible debentures	-	-	(1,217,342)
Income related to repricing of 2006 and 2007 convertible debentures and warrants	-	-	847,588
Total non-operating income (expense)	(22,044,701)	(25,935,554)	(14,948,887)
Loss before income tax	(54,373,332)	(36,758,208)	(33,903,513)
Income tax	-	-	-
Net loss	$ (54,373,332)	$ (36,758,208)	$ (33,903,513)
Weighted average shares outstanding :			
Basic and diluted	1,218,190,921	521,343,094	245,279,135
Loss per share:			
Basic and diluted	$ (0.04)	$ (0.07)	$ (0.14)

The accompanying notes are an integral part of these consolidated financial statements.

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	Series B Preferred Stock		Series C Preferred Stock		Common Stock		Additional Paid-in	Promissory Notes Receivable,	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	net	Deficit	Deficit
Balance December 31, 2007 (Restated)	-	$ -	-	$ -	85,027,461	$ 85,027	$ 34,302,334	$ -	$ (55,914,091)	$ (21,526,730)
Convertible debentures redemptions	-	-	-	-	65,463,111	65,463	5,390,989	-	-	5,456,452
Convertible debentures conversions	-	-	-	-	39,741,987	39,743	6,121,900	-	-	6,161,643
Issuance of stock for debenture financing costs	-	-	-	-	14,710,329	14,710	791,369	-	-	806,079
Option compensation charges	-	-	-	-	-	-	527,243	-	-	527,243
Adjustment to fair value of derivatives	-	-	-	-	-	-	78,367	-	-	78,367
Issuance in respect of anti-dilution provision of convertible debenture	-	-	-	-	70,503	71	15,510	-	-	15,581
Issuance of stock in payment of professional fees	-	-	-	-	1,002,291	1,002	212,847	-	-	213,849
Issuance of stock in settlement of accounts payable	-	-	-	-	220,735,436	220,735	5,818,877	-	-	6,039,612
Issuance of stock under stock incentive plan	-	-	-	-	1,497,263	1,497	140,936	-	-	142,433
Issuance of stock upon exercise of options	-	-	-	-	1,200,000	1,200	58,800	-	-	60,000
Net loss for the year ended December 31, 2008	-	-	-	-	-	-	-	-	(33,903,513)	(33,903,513)
Balance										

December 31, 2008	-	$ -	-	$ -	429,448,381	$ 429,448	$ 53,459,172	$ -	$ (89,817,604)	$ (35,928,984)
Convertible debentures redemptions	-	-	-	-	63,009,884	63,010	5,965,243	-	-	6,028,253
Debt and preferred stock conversions	-	-	-	-	104,412,687	104,413	9,299,147	-	-	9,403,560
Option compensation charges	-	-	-	-	-	-	817,444	-	-	817,444
Issuance of stock in settlement of accounts payable	-	-	-	-	39,380,847	39,381	5,259,767	-	-	5,299,148
Issuance of stock in payment of debt issue costs for preferred stock credit facility	-	-	-	-	24,900,000	24,900	4,706,100	-	-	4,731,000
Issuance of common stock for legal services	-	-	-	-	375,000	375	37,875	-	-	38,250
Issuance of common stock on cashless warrant exercise	-	-	-	-	2,122,495	2,122	284,332	-	-	286,454
Net loss for the year ended December 31, 2009	-	-	-	-	-	-	-	-	(36,758,208)	(36,758,208)
Balance December 31, 2009	-	$ -	-	$ -	663,649,294	$ 663,649	$ 79,829,080	$ -	$(126,575,812)	$ (46,083,083)
Redemptions of convertible debentures	-	-	-	-	144,311,100	144,311	9,582,742	-	-	9,727,053
Conversions of convertible debentures	-	-	-	-	34,822,169	34,822	3,379,286	-	-	3,414,108
Conversions of Series A-1 preferred stock	-	-	-	-	6,206,961	6,207	614,489	-	-	620,696
Conversions of amended convertible promissory notes	-	-	-	-	211,916,152	211,916	9,545,273	-	-	9,757,189
Common stock issued on exercise of warrants	-	-	-	-	36,390,745	36,391	12,805,631	-	-	12,842,022

Common stock issued to executives for compensation	-	-	-	-	107,051,697	107,052	9,527,601	-	-	9,634,653
Common stock issued to directors for board compensation	-	-	-	-	16,773,597	16,774	1,543,439	-	-	1,560,213
Common stock issued for settlements	-	-	-	-	120,875,143	120,875	13,760,283	-	-	13,881,158
Issuance of stock for financing costs	-	-	-	-	1,959,142	1,959	396,552	-	-	398,511
Issuance of Series B preferred stock	1,000	1	-	-	-	-	9,999,999	-	-	10,000,000
Common stock issued upon exercise of Series B preferred stock warrants	-	-	-	-	95,870,362	95,870	9,884,893	(9,980,763)	-	-
Dividends on Series B preferred stock	-	-	-	-	-	-	196,986	-	(196,986)	-
Issuance of Series C preferred stock	-	-	400	-	-	-	4,000,000	-	-	4,000,000
Accretion of note receivable discount	-	-	-	-	-	-	-	(196,607)	196,607	-
Option compensation charges	-	-	-	-	-	-	967,722	-	-	967,722
Net loss for year ended December 31, 2010	-	-	-	-	-	-	-	-	(54,373,332)	(54,373,332)
Balance December 31, 2010	1,000	$ 1	400	$ -	1,439,826,362	$1,439,826	$166,033,976	$(10,177,370)	$(180,949,523)	$ (23,653,090)

The accompanying notes are an integral part of these consolidated financial statements

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (54,373,332)	$ (36,758,208)	$ (33,903,513)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	138,050	291,472	402,867
Amortization of deferred charges	91,600	363,399	702,018
Amortization of deferred revenue	(725,044)	(1,415,979)	(798,310)
Redeemable preferred stock dividend accrual	95,883	123,609	-
Stock based compensation	967,721	817,444	889,269
Amortization of deferred issuance costs	617,568	3,535,245	4,792,087
Amortization of discounts	12,443,112	4,134,693	17,871,392
Adjustments to fair value of derivatives	6,209,898	(23,103,668)	(13,082,247)
Shares of common stock issued for services	11,194,866	38,250	759,496
Shares of common stock issued for settlement	55,168	-	-
Non-cash financing costs	3,375,745	1,704,535	806,079
Loss on settlement of litigation	11,132,467	4,903,949	5,436,137
Gain on forgiveness of debt	(197,370)	(598,425)	-
(Gain) Loss on disposal of fixed assets	(9,500)	-	227,543
Amortization of deferred joint venture obligations	(56,602)	(86,574)	(15,322)
Loss on extinguishment of debt	-	8,200,984	-
Charges related to repricing derivative liabilities	-	30,316,708	-
Loss attributable to investment in joint venture	-	144,438	20,930
Repricing of 2006 and 2007 convertible debentures and warrants	-	83,680	(847,588)
Warrants issued for consulting services	-	130,663	155,281
Charges related to issuance of debt	-	-	1,232,923
Forfeiture of rent deposits	-	-	88,504
Write-off of uncollectible accounts receivable	-	-	30,782
(Increase) / decrease in assets:			
Accounts receivable	-	261,504	(265,260)
Prepaid expenses	9,054	23,422	35,940
Increase / (decrease) in current liabilities:			
Accounts payable and accrued expenses	97,784	(2,915,249)	5,355,229
Accrued interest	-	1,311,330	3,722,198
Deferred revenue	150,000	3,350,000	3,418,745
Net cash used in operating activities	(8,782,932)	(5,142,778)	(2,964,820)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(207,402)	(5,368)	(174,514)
Payment of lease deposits	(12,596)	(2,170)	-
Net cash used in investing activities	(219,998)	(7,538)	(174,514)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of warrants	719,636	-	-
Proceeds from issuance of convertible debentures	1,685,000	-	2,182,432
Proceeds from convertible promissory notes	5,880,000	4,284,250	630,000
Proceeds from issuance of preferred stock	14,068,865	2,588,000	-
Payments on notes and leases	-	-	(18,650)
Payment for issuance costs on note payable	-	-	(3,660)
Net cash provided by financing activities	22,353,501	6,872,250	2,790,122
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,350,571	1,721,934	(349,212)
CASH AND CASH EQUIVALENTS, BEGINNING BALANCE	2,538,838	816,904	1,166,116
CASH AND CASH EQUIVALENTS, ENDING BALANCE	$ 15,889,409	$ 2,538,838	$ 816,904
CASH PAID FOR:			
Interest	$ -	$ -	$ -
Income taxes	$ 5,353	$ 970	$ 1,549

SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:

Issuance of 144,311,100, 63,009,884 and 65,463,111 shares of common stock in

redemption of debt	$ 9,727,053	$ 6,028,253	$ 5,456,452
Issuance of 246,738,321, 87,739,641 and 39,741,987 shares of common stock in conversion of debt	$ 13,171,297	$ 7,736,256	$ 6,161,643
Issuance of 6,206,961 and 16,673,046 shares of common stock in conversion of preferred stock	$ 620,696	$ 1,667,304	$ -
Issuance of stock on cashless exercise of warrants	$ 12,118,685	$ 286,454	$ -
Issuance of 120,267,220, 39,380,847 and 220,735,436 shares of common stock in settlement of litigation	$ 13,881,158	$ 5,299,148	$ 6,039,612
Issuance of 16,773,597 shares of common stock in payment of board fees	$ 1,560,213	$ -	$ -
Issuance of 107,051,697 shares of common stock in payment of board compensation	$ 9,634,653	$ -	$ -
Issuance of 1,959,142 shares of common stock in payment of financing costs	$ 398,511	$ -	$ -
Series B preferred stock dividend	$ 196,986	$ -	$ -
Interest of promissory notes receivable	$ 196,607	$ -	$ -
Issuance of 24,900,000 shares of common stock in payment convertible preferred stock issuance costs	$ -	$ 4,731,000	$ -
Issuance of 70,503 shares of common stock to settle an anti-dilution provision feature of convertible debenture	$ -	$ -	$ 15,581
Issuance of 1,200,000 shares of common stock upon exercise of employee stock options	$ -	$ -	$ 60,000

The accompanying notes are an integral part of these consolidated financial statements.

ADVANCED CELL TECHNOLOGY, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010, 2009 and 2008

1. ORGANIZATIONAL MATTERS

Organization and Nature of Business

Advanced Cell Technology, Inc. (the "Company") is a biotechnology company, incorporated in the state of Delaware, focused on developing and commercializing human embryonic and adult stem cell technology in the emerging fields of regenerative medicine. Principal activities to date have included obtaining financing, securing operating facilities, and conducting research and development. The Company has no therapeutic products currently available for sale and does not expect to have any therapeutic products commercially available for sale for a period of years, if at all. These factors indicate that the Company's ability to continue its research and development activities is dependent upon the ability of management to obtain additional financing as required.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation —The Company follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification,™ sometimes referred to as the Codification or ASC.

Principles of Consolidation — The accounts of the Company and its wholly-owned subsidiary Mytogen, Inc. ("Mytogen") are included in the accompanying consolidated financial statements. All intercompany balances and transactions were eliminated in consolidation.

Segment Reporting —ASC 280, "*Segment Reporting*" requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. The Company determined it has one operating segment. Disaggregation of the Company's operating results is impracticable, because the Company's research and development activities and its assets overlap, and management reviews its business as a single operating segment. Thus, discrete financial information is not available by more than one operating segment.

Use of Estimates — These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and, accordingly, require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Specifically, the Company's management has estimated variables used to calculate the Black-Scholes option pricing model used to value derivative instruments as discussed below under "Fair Value Measurements". In addition, management has estimated the expected economic life and value of the Company's licensed technology, the Company's net operating loss for tax purposes, share-based payments for compensation to employees, directors, consultants and investment banks, and the useful lives of the Company's fixed assets and its accounts receivable allowance. Actual results could differ from those estimates.

Reclassifications — Certain prior year financial statement balances have been reclassified to conform to the current year presentation.

Cash and Cash Equivalents — Cash equivalents are comprised of certain highly liquid investments with maturities of three months or less when purchased. The Company maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Company has not experienced any losses related to this concentration of risk. As of December 31, 2010 and December 31, 2009, the Company had deposits in excess of federally-insured limits totaling $15,399,150 and $2,028,195, respectively.

Accounts Receivable — The Company periodically assesses its accounts receivable for collectability on a specific identification basis. If collectability of an account becomes unlikely, the Company records an allowance for that doubtful account. Once the Company has exhausted efforts to collect, management writes off the account receivable against the allowance it has already created. The Company does not require collateral for its trade accounts receivable.

Property and Equipment — The Company records its property and equipment at historical cost. The Company expenses maintenance and repairs as incurred. Upon disposition of property and equipment, the gross cost and accumulated depreciation are written off and the difference between the proceeds and the net book value is recorded as a gain or loss on sale of assets. In the case of certain assets acquired under capital leases, the assets are recorded net of imputed interest, based upon the net present value of future payments. Assets under capital lease are pledged as collateral for the related lease.

The Company provides for depreciation over the assets' estimated useful lives as follows:

Machinery & equipment	4 years
Computer equipment	3 years
Office furniture	4 years
Leasehold improvements	Lesser of lease life or economic life
Capital leases	Lesser of lease life or economic life

Equity Method Investment — The Company follows ASC 323 *"Investments-Equity Method and Joint Ventures"* in accounting for its investment in the joint venture. In the event the Company's share of the joint venture's net losses reduces the Company's investment to zero, the Company will discontinue applying the equity method and will not provide for additional losses unless the Company has guaranteed obligations of the joint venture or is otherwise committed to provide further financial support for the joint venture. If the joint venture subsequently reports net income, the Company will resume applying the equity method only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

Deferred Issuance Costs — Consists of the following:

(a) Payments, either in cash or share-based, made in connection with the sale of debentures which are amortized using the effective interest method over the lives of the related debentures. These deferred issuance costs are charged to financing costs when and if the related debt instrument is retired or converted early. The weighted average amortization period for deferred debt issuance costs is 48 months.
(b) Payments made to secure commitments under certain financing arrangements. These amounts are recognized in financing costs ratably over the period of the financing arrangements,and are recognized in financing costs immediately if the arrangement is cancelled, forfeited or the utility of the arrangement to the company is otherwise compromised.
(c) Payments made to financial institutions and consulting firms in order to provide financing related services. These costs are being amortized over the terms of the related agreements.

Intangible and Long-Lived Assets— The Company follows ASC 360-10, *"Property, Plant, and Equipment,"* which established a "primary asset" approach to determine the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for a long-lived asset to be held and used. Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. Through December 31, 2010, the Company had not experienced impairment losses on its long-lived assets.

Fair Value of Financial Instruments — For certain financial instruments, including cash and cash equivalents, prepaid expenses, accounts payable, accrued expenses and notes payable, the carrying amounts approximate fair value due to their relatively short maturities.

Fair Value Measurements — The Company applies the provisions of ASC 820-10, *"Fair Value Measurements and Disclosures."* ASC 820-10 defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The carrying amounts reported in the consolidated balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels of valuation hierarchy are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company analyzes all financial instruments with features of both liabilities and equity under ASC 480, *"Distinguishing Liabilities From Equity"* and ASC 815, *"Derivatives and Hedging."* Derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as adjustments to fair value of derivatives. The effects of interactions between embedded derivatives are calculated and accounted for in arriving at the overall fair value of the financial instruments. In addition, the fair values of freestanding derivative instruments such as warrant and option derivatives are valued using the Black-Scholes model.

The Company uses Level 2 inputs for its valuation methodology for the warrant derivative liabilities and embedded conversion option liabilities as their fair values were determined by using the Black-Scholes option pricing model based on various assumptions. The Company's derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as adjustments to fair value of derivatives.

At December 31, 2010, the Company identified the following assets and liabilities that are required to be presented on the balance sheet at fair value:

		Fair Value Measurements at December 31, 2010 Using Fair Value Hierarchy		
Derivative Liabilities	**Fair Value As of December 31, 2010**	**Level 1**	**Level 2**	**Level 3**
Warrant derivative liabilities	$ 27,307,218	$ -	27,307,218	-
Embedded conversion option liabilities	1,019,935	-	1,019,935	-
	$ 28,327,153	$ -	28,327,153	-

At December 31, 2009, the Company identified the following assets and liabilities that are required to be presented on the balance sheet at fair value:

Derivative Liabilities	Fair Value As of December 31, 2009	Fair Value Measurements at December 31, 2009 Using Fair Value Hierarchy Level 1	Level 2	Level 3
Warrant derivative liabilities	$ 18,168,597	$ -	18,168,597	-
Embedded conversion option liabilities	8,609,804	-	8,609,804	-
	$ 26,778,401	$ -	26,778,401	-

For the years ended December 31, 2010, 2009 and 2008, the Company recognized a gain (loss) of ($6,209,898), $23,103,668, and $13,082,247, respectively, for the changes in the valuation of derivative liabilities.

The Company did not identify any non-recurring assets and liabilities that were recorded at fair value during the periods presented.

Revenue Recognition and Deferred Revenue — The Company's revenues are primarily generated from license and research agreements with collaborators. Licensing revenue is recognized on a straight-line basis over the shorter of the life of the license or the estimated economic life of the patents related to the license.

License fee revenue begins to be recognized in the first full month following the effective date of the license agreement. Deferred revenue represents the portion of the license and other payments received that has not been earned. Costs associated with the license revenue are deferred and recognized over the same term as the revenue. Reimbursements of research expense pursuant to grants are recorded in the period during which collection of the reimbursement becomes assured, because the reimbursements are subject to approval.

In some cases, the company is entitled to receive royalty payments from licensees. In such cases, the company recognizes the royalties when they are earned and collectability of those royalty payments is reasonably assured.

In connection with its license agreements, the Company recorded $418,166, $553,448 and $302,239 in license fee revenue for the years ended December 31, 2010, 2009 and 2008, respectively, in its accompanying consolidated statements of operations, and the remainder of the license fee has been accrued in deferred revenue at December 31, 2010 and 2009, respectively.

Research and Development Costs — Research and development costs consist of expenditures for the research and development of patents and technology, which cannot be capitalized. The Company's research and development costs consist mainly of payroll and payroll related expenses, research supplies and research grants. Reimbursements of research expense pursuant to grants are recorded in the period during which collection of the reimbursement becomes assured, because the reimbursements are subject to approval. Research and development costs are expensed as incurred.

Share-Based Compensation —The Company records stock-based compensation in accordance with ASC 718, "Compensation – Stock Compensation." ASC 718 requires companies to measure compensation cost for stock-based employee compensation at fair value at the grant date and recognize the expense over the employee's requisite service period. The Company recognizes in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and non-employees. There were 48,376,119 options outstanding as of December 31, 2010.

Income Taxes — Deferred income taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates of the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Applicable interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statements of operations.

Net Loss Per Share —Earnings per share is calculated in accordance with the ASC 260-10, *"Earnings Per Share."* Basic earnings-per-share is based upon the weighted average number of common shares outstanding. Diluted earnings-per-share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

At December 31, 2010, 2009 and 2008, approximately 190,000,000, 395,000,000 and 270,000,000 potentially dilutive shares, respectively, were excluded from the shares used to calculate diluted earnings per share as their inclusion would be anti-dilutive.

Concentrations and Other Risks — Currently, the Company's revenues and accounts receivable are concentrated on a small number of customers. The following table shows the Company's concentrations of its revenue for those customers comprising greater than 10% of total license revenue for the years ended December 31, 2010, 2009 and 2008.

	Year Ended December 31,		
	2010	2009	2008
Exeter Life Sciences, Inc.	17%	*	16%
START Licensing, Inc.	14%	*	13%
International Stem Cell Corporation	23%	10%	11%
Transition Holdings, Inc.	*	14%	*
CHA Biotech and SCRMI	18%	*	11%
Genzyme Transgenics Corporation	*	28%	17%
Terumo Corporation	*	*	25%

*License revenue earned during the period was less than 10% of total license revenue.

Other risks include the uncertainty of the regulatory environment and the effect of future regulations on the Company's business activities. As the Company is a biotechnology research and development company, there is also the attendant risk that someone could commence legal proceedings over the Company's discoveries. Acts of God could also adversely affect the Company's business.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2010-06, *Improving Disclosures about Fair Value Measurements* ("ASU No. 2010-06"). The new standard addresses, among other things, guidance regarding activity in Level 3 fair value measurements. Portions of ASU No. 2010-06 that relate to the Level 3 activity disclosures are effective for the annual reporting period beginning after December 15, 2010. The Company will provide the required disclosures beginning with the Company's Annual Report on Form 10-K for the year ending December 31, 2011. Based on the initial evaluation, the Company does not anticipate a material impact to the Company's financial position, results of operations or cash flows as a result of this change.

On March 5, 2010, the FASB issued ASU No. 2010-11 Derivatives and Hedging Topic 815 "Scope Exception Related to Embedded Credit Derivatives." This ASU clarifies the guidance within the derivative literature that exempts certain credit related features from analysis as potential embedded derivatives requiring separate accounting. The ASU specifies that an embedded credit derivative feature related to the transfer of credit risk that is only in the form of subordination of one financial instrument to another is not subject to bifurcation from a host contract under ASC 815-15-25, "*Derivatives and Hedging — Embedded Derivatives — Recognition.*" All other embedded credit derivative features should be analyzed to determine whether their economic characteristics and risks are "clearly and closely related" to the economic characteristics and risks of the host contract and whether bifurcation is required. The ASU became effective for the Company on July 1, 2010. The adoption of this ASU did not have an impact on the Company's consolidated financial statements.

(Make sure that all significant new pronouncements are included here)

3. SETTLEMENT AND CANCELATION OF LICENSE AGREEMENT

On December 18, 2008, the Company entered into a license agreement with Transition Holdings, Inc. for certain of the Company's non-core technology. Under the agreement, the Company received $2,000,000, less wire fees, during 2008. The Company further received $1,500,000 in 2009. The Company had initially recorded the transactions as deferred revenue and was amortizing over its 17-year patent useful life. In December 2010, the company received notice that Transition Holdings, Inc. was disputing the nature of the arrangement (See Note 19), and subsequently entered into a settlement arrangement with Transition Holdings, Inc. As a result of this settlement, the Company reclassified the unamortized license fee in the amount of $3,205,856 from deferred revenue to accrued settlement. Amounts of revenue recognized under the arrangement prior to the settlement were not material to the financial statements.

4. INVESTMENT IN JOINT VENTURE

On December 1, 2008, the Company and CHA Bio & Diostech Co., Ltd. formed an international joint venture. The new company, Stem Cell & Regenerative Medicine International, Inc. ("SCRMI"), will develop human blood cells and other clinical therapies based on the Company's hemangioblast program, one of the Company's core technologies. Under the terms of the agreement, the Company purchased upfront a 33% interest in the joint venture, and will receive another 7% interest upon fulfilling certain obligations under the agreement over a period of 3 years. The Company's contribution includes (a) the uninterrupted use of a portion of its leased facility at the Company's expense, (b) the uninterrupted use of certain equipment in the leased facility, and (c) the release of certain of the Company's research and science personnel to be employed by the joint venture. In return, for a 60% interest, CHA has agreed to contribute $150,000 cash and to fund all operational costs in order to conduct the hemangioblast program. Effective May 1, 2010, the Company was no longer obligated to provide laboratory space to SCRMI, and the Company holds a 40% interest in the joint venture and CHA Bio & Diostech, Ltd. owns a 60% interest. The two partners to the joint venture are in negotiations on further funding of the joint venture, but there can be no assurances that an agreement will be reached. Any financial statement impact at this time is unclear should an agreement not be reached.

The Company has agreed to collaborate with the joint venture in securing grants to further research and development of its technology. Additionally, SCRMI has agreed to pay the Company a fee of $500,000 for an exclusive, worldwide license to the Hemangioblast Program. The Company recorded $29,412, $29,412 and $2,450 in license fee revenue for the years ended December 31, 2010, 2009 and 2008, respectively, in its accompanying consolidated statements of operations, and the balance of unamortized license fee of $439,951 and $469,363 is included in deferred revenue in the accompanying consolidated balance sheets at December 31, 2010 and 2009, respectively.

ASC 323 *"Investments-Equity Method and Joint Ventures"* requires that the difference between the cost of an investment and the amount of underlying equity in net assets of an investee should be accounted for as if the investee were a consolidated subsidiary. The Company has calculated the difference between the cost of the investment and the amount of underlying equity in net assets of the joint venture to be $196,130, based on the Company's initial cost basis in the investment of $246,130, less its 33.3% of the initial equity in net assets of the joint venture of $50,000. The Company amortized the $196,130 over the term of the shorter of the equipment usage or lease term (through April 2010, or 17 months from December 1, 2008). The amortization was applied against the value of the Company's investment. Amortization expense for the years ended December 31, 2010, 2009 and 2008 was $0, $80,761 and $11,537, respectively.

The following table is a summary of key financial data for the joint venture as of and for the years ended December 31, 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Current assets	$ 611,843	$ 737,760	$ 179,400
Noncurrent assets	$ 855,372	$ 501,744	$ 468,150
Current liabilities	$ 1,203,941	$ 863,436	$ 76,869
Noncurrent liabilities	$ 1,439,394	$ 488,297	$ 468,150
Net revenue	$ 76,672	$ 26,775	$ 2,450
Net loss	$ (1,852,336)	$ (1,526,851)	$ (62,791)

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2010 and 2009:

	December 31, 2010	December 31, 2009
Machinery & equipment	$ 1,488,527	$ 1,470,306
Computer equipment	449,893	441,744
Office furniture	76,201	76,201
Leasehold improvements	281,383	127,197
Capital leases	51,235	51,235
Accumulated depreciation	(2,162,137)	(2,052,779)
Property and equipment, net	$ 185,102	$ 113,904

Depreciation expense for the years ended December 31, 2010, 2009 and 2008 amounted to $138,050, $291,472 and $402,867, respectively.

6. AMENDED AND RESTATED CONVERTIBLE DEBENTURES

On July 29, 2009, the Company entered into a consent, amendment and exchange agreement (the "Consent and Amendment") with holders (the "Holders") of the Company's outstanding convertible debentures and warrants to purchase shares of the Company's common stock (the "Warrants"), which were issued in private placements to the 2005, 2006, 2007 and 2008 debentures.

Amendment and Forbearance to 2005, 2006, 2007 and 2008 Debentures
Pursuant to the Consent and Amendment, the Company agreed to issue to each Holder in exchange for such Holder's Debenture an amended and restated Debenture (the "Amended and Restated Debentures") in a principal amount equal to the principal amount of such Holder's Debenture times 1.35 minus any interest paid thereon. The conversion price under the Amended and Restated Debentures was reduced to $0.10, subject to further adjustment as provided therein (including for stock splits, stock dividends, and certain subsequent equity sales). The maturity date under the Amended and Restated Debentures was extended until December 31, 2010. The Amended and Restated Debentures included interest at the rate of 12% per annum, which accreted to, and increased the principal amount payable upon maturity. The Amended and Restated Debentures amortized beginning on September 25, 2009 and then the first day of each month thereafter until maturity at a rate of 6.25% of the outstanding principal amount per month, valued at the lesser of the then conversion price and 90% of the average volume weighted average price for the ten prior trading days.

The Company agreed to issue to each holder in exchange for the holder's amended and restated warrants (the "Amended and Restated Warrants"), as well as additional warrants exercisable into 79,076,873 shares of the Company's common stock for a total of warrants exercisable into 192,172,519 shares of common stock, both warrants containing a reduced exercise price of $0.10, subject to certain customary anti-dilution adjustments (including for stock splits, stock dividends, and certain subsequent equity sales). The termination date under the Amended and Restated Warrants was extended until June 30, 2014.

The Company agreed to amend its articles of incorporation to increase the number of authorized shares of Common Stock (the "Amendment"). The Company agreed to increase the number of shares available for issuance under the Company's 2005 Stock Incentive Plan to 129,000,000 shares. The Holders agreed to waive certain defaults. Simultaneously with the execution of Consent and Amendment, and as a condition of the Consent and Amendment, the Company and the Holders entered into a Standstill and Forbearance Agreement (the "Forbearance Agreement") and agreed to forbear from exercising their rights and remedies under the Debentures and the Transaction Documents, and the Company provided a general release in favor of the Holders.

The Company has considered the impact of ASC 470-50 *"Debt-Modifications and Extinguishments"* on the accounting treatment of the change in conversion price of the 2005, 2006, 2007 and 2008 convertible debentures. ASC 470-50 states that a transaction resulting in a significant change in the nature of a debt instrument should be accounted for as an extinguishment of debt. The difference between the reacquisition price and the net carrying amount of the extinguished debt should be recognized currently in income of the period of extinguishment. The Company has concluded that the issuance of the amended and restated debentures constitutes a substantial modification. During the year ended December 31, 2009, the Company recognized a loss on extinguishment of convertible debentures of $8,450,457 representing the difference between the fair value of the amended and restated convertible debentures and the carrying value of the original 2005, 2006, 2007 and 2008 convertible debentures. The fair value of the amended and restated convertible debentures at July 29, 2009 was $18,192,813, net of debt discounts of $2,011,065 that were amortized over the remaining life of the amended and restated convertible debentures. The following table summarizes the convertible debentures through December 31, 2009:

December 31, 2008	
2005 Convertible debenture and embedded derivatives, net of discounts of $0	$ 85,997
2006 Convertible debenture and embedded derivatives, fair value	1,993,354
2007 Convertible debenture and embedded derivatives, fair value	7,706,344
April 2008 Convertible debenture and embedded derivatives	4,066,505
Fair value 2005, 2006, 2007 and 2008 convertible debentures	$ 13,852,200
Year ended December 31, 2009	
Convertible debenture conversions	$ (12,495,486)
Change in fair value of embedded derivatives through July 29, 2009	6,823,641
Adjustment to bifurcate embedded derivatives upon adoption of ASC 815 on July 29, 2009	(7,629,147)
Addition to principal to Debenture Holder	110,000
Accrued default interest on 2005, 2006, 2007 and 2008 convertible debentures, December 31, 2008	3,522,964
Additional accrual of default interest through July 29, 2009	1,227,181
Loss on extinguishment on July 29, 2009	767,778
Amortization of debt discounts	1,425,976
December 31, 2009 Balance, Amended and restated convertible debentures	$ 7,605,107
Less: current portion	(7,605,107)
Non-current portion	$ -

Interest expense from amortization of debt discounts for the years ended December 31, 2010, 2009 and 2008 was $585,091, $2,917,266 and $22,542,636, respectively. Default interest expense recognized for the years ended December 31, 2010, 2009 and 2008 was $0, $1,227,180, and $3,522,964, respectively.

Warrants:

In connection with the amended and restated convertible debentures, the Company issued an additional 79,076,873 warrants to all holders. The warrants are in addition to the 113,095,646 warrants held by the holders just before the issuance of the amended and restated convertible debentures, for a total of 192,172,519 issued to the holders of the amended and restated convertible debentures. The terms of the amended and restated warrants include a reduced exercise price of $0.10, subject to certain customary anti-dilution adjustments. The termination date under the amended and restated warrants was extended until June 30, 2014. The fair value of the 113,095,646 warrants immediately prior to the July 29, 2009 modification was estimated at $14,396,487 representing a decrease in the fair value of the liability of $9,521,469 through the date of modification, which was recorded through the results of operations as an adjustment to fair value of derivatives.

The assumptions used in the Black-Scholes option pricing model at July 29, 2009 are as follows: (1) dividend yield of 0%; (2) expected volatility of 190%, (3) risk-free interest rate of 0.50% - 1.72%, and (4) expected life of 1.09 – 3.68 years. The July 29, 2009 fair value of the 192,172,519 warrants was estimated at $29,956,246 using the Black-Scholes pricing model.

The warrants were again valued at $21,230,788 at December 31, 2010 at fair value using the Black-Scholes model. The total increase (decrease) in the fair value of this warrant liability was $16,975,616 and ($5,195,108) during the years ended December 31, 2010 and 2009, respectively, which was recorded through the results of operations as an adjustment to fair value of derivatives. The assumptions used in the Black-Scholes option pricing model at December 31, 2010 are as follows: (1) dividend yield of 0%; (2) expected volatility of 175%, (3) risk-free interest rate of 1.02%, and (4) expected life of 3.5 years.

Conversion Option:
The Company recorded the fair value of the embedded conversion option liability associated with the amended and restated convertible debentures. The fair value of the embedded conversion option was valued using the Black-Scholes model, resulting in a fair value of $7,629,146 immediately prior to the July 29, 2009 modification. As of July 29, 2009, the convertible debentures were convertible at the option of the holders into a total of 101,213,921 shares, subject to anti-dilution and other customary adjustments. The decrease in fair value of $8,550,020 was recorded through the results of operations as an adjustment to fair value of derivatives during the year ended December 31, 2009.

The assumptions used in the Black-Scholes option pricing model at July 29, 2009 are as follows: (1) dividend yield of 0%; (2) expected volatility of 190%, (3) risk-free interest rate of 0.14% – 0.50%, and (4) expected life of 0.01 – 1.09 years.

These debentures were repaid in full at December 31, 2010. As such, the embedded conversion option value was $0. The fair value of the embedded conversion option was $4,519,815 at December 31, 2009. A decrease in the fair value of the liability of $4,693,596 and $17,644,086 was recognized during the years ended December 31, 2010 and 2009, respectively. Additionally, $1,796,368 was recorded in charges related to repricing derivative liabilities of the 2008 convertible debenture during the year ended December 31, 2009, prior to the July 29, 2009 modification, as a result of a settlement with a debenture holder in February 2009 (See Note 12).

Additional Settlement and Release:
Further, on August 30, 2010, an investor was granted a preliminary injunction against the Company, whereby the Company delivered to the investor 49,220,665 shares of its common stock. Further, on September 30, 2010, under the terms of a final settlement and mutual release with the same investor, the Company exchanged a new convertible debenture to the investor in exchange for the investor's outstanding convertible debenture. The terms of the new convertible debenture are the same as the amended and restated debentures, except that the amounts under the debenture are due and payable on or before December 31, 2010 and June 30, 2011, and the conversion and redemption prices are subject to a floor price of $0.06 per share. Concurrently with the settlement and release, all common stock purchase warrants previously issued to the investor were cancelled (23,701,263 warrants in total) and the legal actions were dismissed. The Company recorded a loss on settlement in the amount of $3,132,300 during the year ended December 31, 2010 in its accompanying statement of operations.

During 2010, the debenture holders converted debt valued at $1,321,109 and redeemed debt valued at $7,652,512 for 13,292,170 and 107,523,903 shares of the Company's common stock, respectively. During 2009, the debenture holders converted debt valued at $6,467,231 and redeemed debt valued at $6,028,253 for 74,677,933 and 63,009,884 shares of the Company's, respectively. As of December 31, 2010, these debentures are fully retired

7. AMENDED CONVERTIBLE PROMISSORY NOTES

On August 25, 2009, the Company entered into an amendment to its convertible promissory notes with JMJ Financial, originally executed on February 14, 2008. The note has been amended as follows:

- Note A: The original issue discount has been increased by 10%, or $60,000, such that the new principal amount is $660,000.
- Note B: The original issue discount has been increased by 10%, or $120,000, such that the new principal amount is $1,320,000.

All other terms and conditions of the original convertible promissory note remain in full force and effect.

Terms of the Original Notes:
The Company issued and sold a $600,000 unsecured convertible note dated as of February 15, 2008 ("Note A") to JMJ Financial, for a net purchase price of $500,000 (reflecting a 16.66% original issue discount) in a private placement. Note A bears interest at the rate of 12% per annum, and is due by February 15, 2010. At any time after the 180th day following the effective date of Note A, the holder may at its election convert all or part of Note A plus accrued interest into shares of the Company's common stock at the conversion rate of the lesser of: (a) $0.38 per share, or (b) 80% of the average of the three lowest trade prices in the 20 trading days prior to the conversion. Pursuant to the Use of Proceeds Agreement entered into in connection with the issuance of Note A, the Company is required to use the proceeds from Note A solely for research and development dedicated to adult stem cell research.

Effective February 15, 2008, in exchange for $1,000,000 in the form of a Secured & Collateralized Promissory Note (the "JMJ Note") issued by JMJ Financial to the Company, the Company issued and sold an unsecured convertible note ("Note B") to JMJ Financial in the aggregate principal amount of $1,200,000 or so much as may be paid towards the balance of the JMJ Note. Note B bears interest at the rate of 10% per annum, and is due by February 15, 2010. At any time following the effective date of Note B, the holder may at its election convert all or part of Note B plus accrued interest into shares of the Company's common stock at the conversion rate of the lesser of: (a) $0.38 per share, or (b) 80% of the average of the three lowest trade prices in the 20 trading days prior to the conversion. In connection with the issuance of Note B, the Company entered into a Collateral and Security Agreement dated as of February 15, 2008 with JMJ Financial pursuant to which the Company granted JMJ Financial a security interest in certain of its assets securing the JMJ Note.

As long as any portion of this Notes remain outstanding, unless the holders of at least 67% in principal amount of the then outstanding debentures otherwise give prior written consent, the Company is not permitted to (a) guarantee or borrow any indebtedness, (b) enter into any liens, (c) amend its charter documents in any manner that materially and adversely affects any rights of the holders, (d) acquire more than a de minimis number of shares of its common stock equivalents other than as to conversion shares of warrant shares as permitted or required and repurchases of common stock or common stock equivalents of departing officers and directors of the Company, provided that such purchases do not exceed certain specified amounts, (e) repay any indebtedness, other than the debentures already issued on a pro-rata basis, other than regularly scheduled principal payments as such terms are in effect under this debenture, (f) pay cash dividends or distributions on any equity securities of the Company, (g) enter into any material transaction with any affiliate of the Company, unless such transaction is made on an arm's-length basis, or (h) enter into any agreement with respect to any of the above.

The Note agreement does not limit the number of shares that the Company could be required to issue.

Impact of Modification:
The Company has considered the impact of ASC 470-50 *"Debt-Modifications and Extinguishments"* on the accounting treatment of the change in conversion price of the Notes. ASC 470-50 states that a transaction resulting in a significant change in the nature of a debt instrument should be accounted for as an extinguishment of debt. The difference between the reacquisition price and the net carrying amount of the extinguished debt should be recognized currently in income of the period of extinguishment. The Company has concluded that the issuance of the amendment to the February 15, 2008 convertible promissory notes constitutes a substantial modification.

During the year ended December 31, 2009, the Company recognized a gain on extinguishment of convertible debentures of $249,473 representing the difference between the fair value of the amended and restated convertible promissory notes and the carrying value of the original convertible promissory notes. The fair value of the amended convertible debentures at August 25, 2009 was $828,818, net of debt discounts of $29,968 that will be amortized over the remaining life of the amended and restated convertible debentures. The following table summarizes the convertible promissory notes:

December 31, 2008	
Fair value convertible promissory notes, December 31, 2008	$ 1,757,470
Year ended December 31, 2009	
Convertible promissory note conversions	$ (1,269,026)
Additional proceeds from convertible promissory notes	2,620,000
Change in fair value of embedded derivatives through August 15, 2009	(478,521)
Adjustment to bifurcate embedded derivatives upon adoption of ASC 815 on August 15, 2009	(558,949)
Accrued default interest on convertible promissory notes, December 31, 2008	194,420
Additional accrual of default interest through August 15, 2009	84,151
Accrued convertible promissory note interest through August 15, 2009	79,720
Gain on extinguishment on August 15, 2009	(249,473)
Debt discounts	2,409,199
Amortization of debt discounts	973,824
December 31, 2009 Balance, Amended convertible promissory notes	$ 5,562,815
Less: current portion	(685,233)
Non-current portion	$ 4,877,582

The Company has recorded the fair value of the embedded conversion option liability associated with the amended convertible promissory notes. The fair value of the embedded conversion option was valued using the Black-Scholes model, resulting in a fair value of $558,949 immediately prior to the August 15, 2009 modification. As of August 15, 2009, the convertible promissory notes were convertible at the option of the holders into a total of 7,934,211 shares just prior to modification and into a total of 8,644,737 shares just after the modification, subject to anti-dilution and other customary adjustments. The decrease in fair value of $496,955 was recorded through the results of operations as an adjustment to fair value of derivatives during the year ended December 31, 2009.

The assumptions used in the Black-Scholes option pricing model at August 15, 2009 are as follows: (1) dividend yield of 0%; (2) expected volatility of 185%, (3) risk-free interest rate of 0.26%, and (4) expected life of 0.48 years. The Company also recognized $50,057 in charges related to repricing derivative liabilities in the accompanying consolidated statements of operations during the year ended December 31, 2009 for the adjustment related to the changes in the terms of the conversion option liabilities at August 25, 2009. These notes were fully repaid at December 31, 2010, so the fair value of the embedded conversion option was $0 at December 31, 2010. The Company recognized a decrease in the fair value of the liability of $7,688,402 and $603,062 during the years ended December 31, 2010 and 2009, respectively.

During the year ended December 31, 2009, the Company converted the entire amounts owed under Note A and Note B.

Amendment to Convertible Promissory Notes with JMJ Financial:
On October 1, 2009, October 29, 2009, October 29, 2009 and October 30, 2009, the Company entered into Addendums ("Notes B1-B4") to Note B convertible promissory note, under the same terms and conditions as Note B. The following table summarizes the key terms of Notes B1-B4:

Note B Addendum	Effective Date	Maturity Date	Initial Available Consideration	Principal Sum	Interest Rate	Principal Outstanding December 31, 2009
Note B1	10/1/2009	10/1/2012	$ 1,120,000	$ 1,320,000	18%	$ 1,320,000
Note B2	10/29/2009	10/29/2012	1,120,000	1,320,000	18%	330,000
Note B3	10/29/2009	10/29/2012	1,120,000	1,320,000	18%	117,857
Note B4	10/30/2009	1/19/2013	1,120,000	1,320,000	18%	117,857
			$ 4,480,000	$ 5,280,000		$ 1,885,714

The conversion rate of Notes B1-B2 is the lesser of (a) $0.38, or (b) 80% of the average of the three lowest trade prices in the 20 trading days prior to the conversion. The conversion rate of Notes B3-B4 is the lesser of (a) $0.25, or (b) 80% of the average of the three lowest trade prices in the 20 trading days prior to the conversion.

The Company has recorded the fair value of the embedded conversion option liability associated with the Note B Addendums. The initial fair value of the embedded conversion option was valued using the Black-Scholes model, resulting in a fair value of $2,065,370. The increase in fair value of $18,966 was recorded through the results of operations as an adjustment to fair value of derivatives during the year ended December 31, 2009. The assumptions used in the Black-Scholes option pricing model between October 9 and December 16, 2009 are as follows: (1) dividend yield of 0%; (2) expected volatility of 180 - 185%, (3) risk-free interest rate of 1.27 - 1.52%, and (4) expected life of 2.79 - 3.22 years. These notes were fully retired at December 31, 2010.

2010 JMJ Convertible Promissory Notes

During the year ended December 31, 2010, the Company also issued three additional convertible promissory notes to JMJ Financial, for a total of $3,000,000 available to receive in cash, for a principal sum of $3,850,000, which includes an original issue discount of $850,000. The notes bear a one-time interest charge of 10% on the principal sum. The holder may at its election convert all or part of these notes into shares of the Company's common stock at the conversion rate of the lesser of: (a) $0.10 per share, or (b) 85% of the average of the three lowest trade prices in the 20 trading days prior to the conversion. During the year ended December 31, 2010, the Company received the entire $3,000,000 on these additional notes. Of the $3,850,000 borrowed, the Company converted $3,562,215 into 76,465,706 shares of common stock. The notes mature on March 30, 2013.

The initial fair value of the embedded conversion option liability associated with the funds received during the year ended December 31, 2010 was valued using the Black-Scholes model, resulting in an initial fair value of $5,944,408. The assumptions used in the Black-Scholes option pricing model at the dates the funds were received are as follows: (1) dividend yield of 0%; (2) expected volatility of 175-180%, (3) risk-free interest rate of 0.87 – 1.60%, and (4) expected life of 2.47 – 3.00 years.

The value of the conversion option liability underlying the 2010 notes at December 31, 2010 was $628,919. The Company recognized a gain from the decrease in the fair value of the conversion option liability in the amount of $3,254,094 during the year ended December 31, 2010, representing the change in fair value during the year.

The following table summarizes all JMJ Financial convertible promissory notes outstanding at December 31, 2010:

Convertible promissory notes, principal	$	287,785
Debt discounts		(285,005)
Net convertible promissory notes	$	2,780
Less current portion		(1,585)
Convertible promissory notes, long term	$	1,195

As of December 31, 2010 and 2009, respectively, the convertible promissory notes were convertible at the option of the holders into a total of 2,877,850 and 38,898,466 shares, subject to anti-dilution and other customary adjustments. The fair value of the embedded conversion option was $628,919 and $2,471,729 at December 31, 2010 and 2009, respectively. The decrease in the fair value of this liability was $7,778,168 and $1,490,368 during the years ended December 31, 2010 and 2009, respectively, which was recorded through the results of operations as an adjustment to fair value of derivatives. The assumptions used in the Black-Scholes option pricing model at December 31, 2010 are as follows: (1) dividend yield of 0%; (2) expected volatility of 175%, (3) risk-free interest rate of 0.61%, and (4) expected life of 2.25 years.

During 2010, the debenture holder converted debt valued at $9,757,190 for 211,916,152 shares of common stock. During 2009, the debenture holder converted debt valued at $1,269,024 for 14,167,962 shares of common stock.

The Company recorded finance costs in the amount of $2,669,408 and $465,370, respectively, in its accompanying consolidated statement of operations for the years ended December 31, 2010 and 2009, representing the excess of the fair value of the conversion option feature over the face value of the JMJ promissory notes.

Interest expense from amortization of debt discounts for the years ended December 31, 2010, 2009 and 2008 was $6,410,552, $1,220,220 and $157,235, respectively. Default interest expense recognized for the years ended December 31, 2010, 2009 and 2008 was $0, $84,151 and $194,420, respectively.

8. 2009 CONVERTIBLE PROMISSORY NOTES

On November 12, 2009, the Company entered into a subscription agreement (the "Subscription Agreement") with certain subscribers (the "Subscribers"). For the sale of certain original issue discount promissory notes ("Notes"). The Notes are convertible at the option of the holder into shares of the Company's common stock at a conversion price of $0.10.

Pursuant to the Subscription Agreement, the Company also agreed to issue (i) one-and-one third Class A warrants ("Class A Warrants") for each two shares of common stock underlying the Notes, to purchase shares of the Company's common stock with a term of five years and an exercise price of $0.108, (ii) additional investment rights, exercisable until 9 months after the initial closing date of the Subscription Agreement ("Additional Investment Rights"), to purchase (a) original issue discount promissory notes ("AIR Notes"), with the same terms as the Notes, in the principal amount of up to the principal amount of the Notes to be purchased by the Subscribers, for a purchase price of up to the purchase price paid by the Subscribers for the Notes, with a conversion price of $0.10, and (b) one-and-one third Class B warrants ("Class B Warrants") for each two shares of common stock underlying the AIR Notes, to purchase shares of the Company's common stock ("First Close Warrants").

The initial closing under the Subscription Agreement occurred on November 12, 2009, pursuant to which, the Company sold Notes ("First Close Notes") in the principal amount of $1,662,000 for a purchase price of $1,385,000. In addition, on November 13, 2009, the Company sold Notes in the principal amount of $441,000 for a purchase price of $367,500 (including $67,500 previously owed to a subscriber for legal services). The closing that occurred on November 13, 2009 was deemed part of the initial closing, such that, pursuant to the initial closing under the Subscription Agreement, the Company sold Notes in the aggregate principal amount of $2,103,000 for an aggregate purchase price of $1,752,500.

On February 18, 2010, the Company completed the second closing, issuing additional debentures ("Second Close Debentures"), under the same terms of the initial closing, in the principal amount of up to $2,076,451 for a purchase price of $1,730,375 (including $45,375 previously owed to a subscriber for legal services). Pursuant to the initial closing under the Subscription Agreement, the Company also issued an aggregate of 13,808,400 Class A Warrants ("Second Close Warrants").

The Company is be required to redeem the Notes monthly commencing in May 2010 under the first closing and September 2010 under the second closing, in the amount of 14.28% of the initial principal amount of the Notes, in cash or common stock at the Company's option (subject to the conditions set forth in the Notes), until the Notes are paid in full. The maturity date of the 2009 convertible promissory notes, first close is November 12, 2010, and March 1, 2011 under the second close.

First Close Warrants:
Pursuant to the initial closing under the Subscription Agreement, the Company also issued an aggregate of (i) 13,984,950 Class A Warrants, and (ii) Additional Investment Rights for the purchase of up to (a) $4,206,000 principal amount of AIR Notes for a purchase price of up to $3,505,000 and (b) 28,040,000 Class B Warrants. As of December 31, 2010, the Additional Investment Right expired with no additional investment.

The term of the "First Close" warrants is five years and is subject to anti-dilution and other customary adjustments. The initial fair value of the warrants was estimated at $1,345,539 using the Black-Scholes pricing model. The assumptions used in the Black-Scholes option pricing model at November 12 and 13, 2009 for all warrants issued in connection with these promissory notes are as follows: (1) dividend yield of 0%; (2) expected volatility of 185%, (3) risk-free interest rate of 2.28%, and (4) expected life of 5.0 years.

Second Close Warrants:
The term of the "second close" 13,808,400 warrants is five years from the initial close and is subject to anti-dilution and other customary adjustments. The initial fair value of the warrants was estimated at $1,175,007 using the Black-Scholes pricing model. The assumptions used in the Black-Scholes option pricing model at February 18, 2010 for all warrants issued in connection with these promissory notes are as follows: (1) dividend yield of 0%; (2) expected volatility of 180%, (3) risk-free interest rate of 0.34%, and (4) expected life of 4.73 years.

The warrants were valued at $4,096,346 at December 31, 2010 at fair value using the Black-Scholes model, representing a decrease in the fair value of the liability of $3,027,693 and $145,388 during the years ended December 31, 2010 and 2009, respectively, which was recorded through the results of operations as an adjustment to fair value of derivatives. The assumptions used in the Black-Scholes option pricing model at December 31, 2010 for all warrants issued in connection with these notes are as follows: (1) dividend yield of 0%; (2) expected volatility of 175%, (3) risk-free interest rate of 1.02%, and (4) expected life of 3.87 years.

Conversion Options:
The Company has bifurcated and recorded the fair value of the embedded conversion option liability associated with the convertible promissory notes.

First Close Notes—the fair value of the embedded conversion option liability was valued using the Black-Scholes model, resulting in an initial fair value of $1,357,408 at November 12 and 13, 2009.

The assumptions used in the Black-Scholes option pricing model under the first close are as follows: (1) dividend yield of 0%; (2) expected volatility of 185%, (3) risk-free interest rate of 0.32%, and (4) expected life of 1.0 year. The assumptions used in the Black-Scholes option pricing model under the second close are as follows: (1) dividend yield of 0%; (2) expected volatility of 180%, (3) risk-free interest rate of 0.34%, and (4) expected life 0.73 years.

At December 31, 2010 and 2009 respectively, the conversion option is exercisable for a total of 1,519,080 and 21,030,000 shares of common stock at a conversion price of $0.10 per share, subject to anti-dilution and other customary adjustments. The fair value of the embedded conversion option liability was $178,569 and $1,092,273 at December 31, 2010 and 2009, respectively.

The assumptions used in the Black-Scholes option pricing model at December 31, 2010 are as follows: (1) dividend yield of 0%; (2) expected volatility of 175%, (3) risk-free interest rate of 0.12%, and (4) expected life of 0.16 years. The change in fair value of the embedded conversion option of $1,914,845 and $265,135 was recorded through the results of operations as an adjustment to the fair value of derivatives for the years ended December 31, 2010 and 2009, respectively.

Second Close Debentures—the fair value of the embedded conversion option liability was valued using the Black-Scholes model, resulting in an initial fair value of $1,001,140 at February 18, 2010. The convertible debenture is convertible at the option of the holders into a total of 20,764,510 shares of common stock at a conversion price of $0.10 per share, subject to anti-dilution and other customary adjustments.

The assumptions used in the Black-Scholes option pricing model at February 18, 2010 are as follows: (1) dividend yield of 0%; (2) expected volatility of 180%, (3) risk-free interest rate of 0.34%, and (4) expected life of 0.73 years.

Interest expense for the years ended December 31, 2010 and 2009 was $3,878,952 and $281,272, respectively. The Company recorded finance costs in the amount of $468,272 and $950,448 in its accompanying consolidated statement of operations for the years ended December 31, 2010 and 2009, respectively, representing the excess of the fair value of the conversion option feature over the face value of the convertible promissory notes.

The following table summarizes the 2009 convertible promissory notes outstanding at December 31, 2010:

Convertible promissory notes, principal	$	151,908
Debt discounts		(19,228)
Net convertible promissory notes	$	132,680
Less current portion		(132,680)
Convertible promissory notes, long term	$	-

During 2010, the debenture holders converted debt valued at $1,953,000 and redeemed debt valued at $2,074,543 for 19,529,999 and 36,787,197 shares of the Company's common stock, respectively.

9. SERIES A-1 REDEEMABLE CONVERTIBLE PREFERRED STOCK

On March 3, 2009, the Company entered into a $5 million credit facility ("Facility") with a life sciences fund. Under the terms of the agreement, the Company may draw down funds, as needed, from the investor through the issuance of Series A-1 redeemable convertible preferred stock, par value $.001, at a basis of 1 share of Series A-1 redeemable convertible preferred stock for every $10,000 invested. The preferred stock pays dividends, in kind of preferred stock, at an annual rate of 10%, matures in four years from the initial drawdown date, and was convertible into common stock at $0.75 per share at the option of the holder.

However, in the event the closing price of the common stock during the 5 trading days following the notice to convert falls below 75% of the average of the closing bid price in the 5 trading days prior to the closing date, the investor may, at its option, and without penalty, decline to purchase the applicable put shares on the closing date.

The Company is required to keep available out of its authorized but unissued shares of common stock, such number of shares sufficient to effect a conversion of all then outstanding shares of the Series A-1 redeemable convertible preferred stock.

The Series A-1 redeemable convertible preferred stock has been classified within the mezzanine section between liabilities and equity in the consolidated balance sheets because it is considered conditionally redeemable. The embedded conversion option has been recorded as a derivative liability (See Section entitled "Conversion Option" in this footnote below) in the Company's consolidated balance sheets, and changes in the fair value each reporting period are reported in adjustments to fair value of derivatives in the consolidated statements of operations.

During the year ended December 31, 2009, the Company drew down $2,588,000 on this facility. The outstanding balance at December 31, 2010 of $1,130,165 is convertible into 1,506,887 shares of the Company's common stock. The Company values the conversion option initially when each draw takes place (see section entitles "Conversion Option" in this footnote below).

The following table summarizes the Series A-1 redeemable convertible preferred stock and embedded derivative outstanding at December 31, 2010 and 2009:

	December 31, 2010	December 31, 2009
Principal due	$ 1,130,165	$ 920,696
Accrued dividend	219,492	123,609
Debt discount	(77,216)	(136,110)
	1,272,441	908,195
Less current portion	-	-
Non-current portion	$ 1,272,441	$ 908,195
Aggregate liquidation value*	$ 1,349,657	$ 1,044,305

* Represents the sum of principal due and accrued dividends.

The dividends are accrued at a rate of 10% per annum, and the Company records the accrual as interest expense in its consolidated statements of operations in the period incurred. The Company recorded accrued dividends on the Series A-1 redeemable convertible preferred stock of $219,492 and $123,609 for the years ended December 31, 2010 and 2009, respectively.

Redemption Rights
Upon the earlier of (i) the fourth anniversary of the issuance date, or (ii) the occurrence of a major transaction, each holder shall have the right to require the Company to redeem all or a portion of such holder's share of Series A-1 preferred stock, at a price per share equal to the Series A-1 liquidation value. The Company has the option to pay the redemption price in cash or in shares of its common stock. The Company shall have the right to redeem all or a portion of the shares of Series A-1 redeemable preferred stock, at any time at a price per share of Series A-1 redeemable preferred stock equal to 100% of the Series A-1 liquidation value.

Termination and Liquidation Rights
The Company may terminate this agreement and its right to initiate future draw-downs by providing 30 days advanced written notice to the investor, subject to certain limitations.

Upon any liquidation, dissolution or winding up of the Company, the holders of the Series A-1 redeemable convertible preferred stock shall first be entitled to be paid out of the assets of the Company available for distribution (subject to certain limitations) to its stockholders an amount with respect to each share of Series A-1 redeemable convertible preferred stock equal to $10,000, plus any accrued by unpaid dividends.

Conversion Option:
The embedded conversion option was valued at $212,447 and $525,986 at December 31, 2010 and 2009, respectively, at fair value using the Black-Scholes model. The decrease in the fair value of the embedded conversion option liability of $392,400 and $2,094,924 for the years ended December 31, 2010 and 2009, respectively, was recorded through the results of operations as an adjustment to fair value of derivatives.

The assumptions used in the Black-Scholes model to value the embedded conversion option at each draw date were as follows: (1) dividend yield of 0%; (2) expected volatility of 180 - 190%, (3) risk-free interest rate of 1.70 - 2.86%, and (4) expected life of 3.27 - 4.00 years.

The assumptions used in the Black-Scholes model to value the embedded conversion option at December 31, 2010 were as follows: (1) dividend yield of 0%; (2) expected volatility of 175%, (3) risk-free interest rate of 0.61%, and (4) expected life of 2.27 years.

Commitment fee and expenses--For providing investor relations services in connection with the Series A-1 redeemable convertible preferred stock credit facility, the Company issued a consultant 24,900,000 shares of its common stock on February 9, 2009. The Company valued the issuance of these shares at $4,731,000 based on a closing price of $0.19 on February 9, 2009 and recorded the value of the shares as deferred financing costs on the date they were issued. Beginning on the date of the first draw-down on April 6, 2009 (the loan maturity date is 4 years after the initial draw-down), the Company amortizes these fees over the term of the Series A-1 redeemable convertible preferred stock facility which represents the implied term of the investor relations contract.

The Company also incurred a non-refundable commitment fee to the holder of this convertible preferred stock facility in the amount of $250,000. The initial fee went into delinquency and was modified on October 19, 2009 (See Modification section in this footnote below).

Beginning on the date of the first draw-down on April 6, 2009 (the loan maturity date is 4 years after the initial draw-down), the Company amortizes the deferred issuance costs ratably over the term of the Series A-1 redeemable convertible preferred stock facility.

Interest expense from amortization of the debt discount and deferred costs for the years ended December 31, 2010 and 2009 was $137,753 and $3,778,850, respectively.

Modification of Series A-1 Convertible Redeemable Preferred Stock:
On October 19, 2009, the Company entered into two letter agreements with Volation, pursuant to which (i) the Company reduced the conversion price of its existing outstanding Series A-1 convertible preferred stock issued to Volation to $0.10 per share resulting in 22,880,000 shares of Common Stock upon conversion, (ii) the Company issued Volation 2,500,000 shares of its Common Stock at $0.10 per share in payment of an outstanding commitment fee, and (iii) Volation waived the delinquency in non-payment of the $250,000 commitment fee required pursuant to the preferred stock purchase agreement between the Company and Volation. The commitment fee was paid during the year ended December 31, 2010 by reducing the proceeds paid by the Series A-1 Preferred Stock investors by the amount of the commitment fee.

In connection with the modification, the Company calculated the fair value of the conversion option for the preferred stock immediately prior to and after the change in the conversion price. The change in fair value of the conversion option on the preferred stock was $2,241,197, which the Company recorded to charges related to repricing derivative liabilities during the year ended December 31, 2009.

During 2010, the Company issued 6,206,961 shares of common stock for the conversion of $620,696 of Series A-1 redeemable convertible preferred stock.

10. SERIES B PREFERRED STOCK

On November 2, 2009 ("Effective Date"), the Company entered into a preferred stock purchase agreement with Optimus Life Sciences Capital Partners, LLC ("Investor" or "Optimus"). Pursuant to the purchase agreement, the Company agreed to sell, and the Investor agreed to purchase, in one or more purchases from time to time in the Company's sole discretion, (i) up to 1,000 shares of Series B preferred stock at a purchase price of $10,000 per share, for an aggregate purchase price of up to $10,000,000, and (ii) five-year warrants to purchase shares of the Company's common stock with an aggregate exercise price equal to 135% of the purchase price paid by the Investor, at an exercise price per share as follows:

- On the sixth (6th) Trading Day following the Tranche Notice Date, the Exercise Price of the Optimus Warrant shall be adjusted to equal the value weighted average price ("VWAP") for the 5 trading days beginning on and including the Tranche Notice Date (as so adjusted, the "Adjusted Exercise Price"); and

- If the Adjusted Exercise Price results in additional Warrant Shares being issuable to the Holder, such additional shares shall be delivered to the Holder within one Trading Day following the Adjustment Date. If the Adjusted Exercise Price results in less Warrant Shares being issuable to the Holder, the excess Warrant Shares shall be returned by the Holder to the Company within one Trading Day following on the Adjustment Date.

The Warrants were be issued in replacement of a five-year warrant to purchase 119,469,027 shares of common stock with an exercise price per share of $0.113 the Company issued on the Effective Date.

The Company agreed to pay to the Investor a commitment fee of $500,000, at the earlier of the closing of the first Tranche or the six month anniversary of the effective date, payable at the Company's election in cash or common stock valued at 90% of the volume weighted average price of the Company's common stock on the five trading days preceding the payment date. The $500,000 commitment fee was outstanding and was recorded in accrued expenses in the Company's consolidated balance sheet at December 31, 2009. During 2010, the Company issued 50 shares of preferred stock as payment for the commitment fee.

During the year ended December 31, 2010, the Company delivered tranche notices to Optimus Life Sciences Capital Partners, LLC for delivery of a total of 1,000 shares under the Series B preferred stock for funding in the amount of $10,000,000 ($9,485,000 in cash proceeds, $500,000 of commitment fee applied, and $15,000 in legal fees).

During the year ended December 31, 2010, in connection with the funding, the Company issued 95,870,362 shares of its common stock upon exercise of the same number of warrants, which were granted simultaneously with the Company's tranche notices. The Company received secured promissory notes in the amount of $13,500,000 to settle the warrant exercise during the year ended December 31, 2010.

Dividends
Commencing on the date of the issuance of any shares of Series B preferred stock, Holders of Series B preferred stock will be entitled to receive dividends on each outstanding share of Series B preferred stock, which will accrue in shares of Series B preferred stock at a rate equal to 10% per annum from the issuance date. Accrued dividends will be payable upon redemption of the Series B preferred stock. Accrued dividends were $196,986 at December 31, 2010.

Redemption Rights
Upon or after the fourth anniversary of the initial issuance date, the Company will have the right, at the Company's option, to redeem all or a portion of the shares of the Series B preferred stock, at a price per shares equal to 100% of the Series B liquidation value. The preferred stock may be redeemed at the Company's option, commencing 4 years from the issuance date at a price per share of (a) $10,000 per share plus accrued but unpaid dividends (the "Series B Liquidation Value"), or, at a price per share of : (x) 127% of the Series B Liquidation Value if redeemed on or after the first anniversary but prior to the second anniversary of the initial issuance date, (y) 118% of the Series B Liquidation Value if redeemed on or after the second anniversary but prior to the third anniversary of the initial issuance date, and (z) 109% of the Series B Liquidation Value if redeemed on or after the third anniversary but prior to the fourth anniversary of the initial issuance date.

Liquidation Rights
The preferred shares shall, with respect to dividend, rights upon liquidation, winding-up or dissolution, rank: (i) senior to the Company's common stock, and any other class or series of preferred stock of the Company, except Series A-1 Convertible Preferred Stock which shall rank senior in right of liquidation and *pari passu* with respect to dividends; and (ii) junior to all existing and future indebtedness of the Company.

If the Company determines to liquidate, dissolve or wind-up its business, it must redeem the Series B preferred stock at the prices set forth above. Upon any liquidation, dissolution or winding up of the Company the Holders of Series B preferred stock shall be first entitled to be paid out of the assets of the Company available for distribution to its stockholders an amount with respect to each share of Series B preferred stock equal to $10,000, plus any accrued and unpaid dividends.

The Company has classified the Series B redeemable preferred stock in the equity section in its consolidated balance sheets.

Related Secured Promissory Notes Receivable:
In accordance with the terms of the Series B preferred stock agreement, Optimus issued to the Company a secured promissory note in consideration for receiving warrants under each tranche. The value of each secured promissory note equals the value of the warrants that Optimus received. Interest on the notes accrues at 2% per year, compounding annually if the interest remains unpaid at the end of each year. The note is secured by freely tradable marketable securities belonging to Optimus. Each promissory note matures on the fourth anniversary of its issuance.

In the event the Company redeems all or a portion of any shares of Series B preferred stock held by Optimus, the Company will be permitted to offset the full amount of such proceeds against amounts outstanding under the promissory notes. Accordingly, the Company included the discounted value of the secured promissory notes as a separate component of stockholders' deficit at December 31, 2010.

The value of the secured promissory notes in the accompanying consolidated balance sheets was $10,177,370, net of discounts of $3,322,630 at December 31, 2010, reflecting a face value of $13,500,000. The Company determined that a 10% discount is appropriate, in order to consistently reflect the Company's cost of borrowing under the terms of the underlying Series B preferred stock that permits offset. The Company recorded an initial discount on the promissory notes in the amount of $3,519,238 during the year ended December 31, 2010. The Company accretes interest at 10% over the respective four-year terms of the promissory notes.

During the year ended December 31, 2010, the Company accreted interest on the promissory note in the amount of $196,607, which was recorded in retained earnings during the period then ended. The Company recorded $196,986 in dividends on its Series B preferred stock during the year ended December 31, 2010.

As of December 31, 2010 and 2009, 1,000 and 0 shares of Series B preferred stock were outstanding, respectively.

11. SERIES C PREFERRED STOCK

On December 30, 2010, the Company entered into a securities purchase agreement with Socius CG II, Ltd., a Bermuda exempted company ("Socius"). Pursuant to the purchase agreement, the Company agreed to sell, and Socius agreed to purchase, in one or more purchases from time to time ("tranches") in the Company's sole discretion (subject to the conditions set forth therein), (i) up to 2,500 shares of Series C Preferred Stock (the "Preferred Shares") at a purchase price of $10,000 per share, for an aggregate purchase price of up to $25,000,000, and (ii) two-year warrants that would obligate Socius to purchase shares of the Company's common stock with an aggregate exercise price equal to 20% of the purchase price paid by Socius, at an exercise price per share equal to the closing bid price of the Company's common stock on the date the Company provides notice of such tranche. On each date that the Company delivers a tranche notice to Socius, Socius shall become obligated, pursuant to a right automatically vesting on such tranche notice date, to purchase that number of shares of common stock ("Additional Investment Shares") equal in dollar amount to 100% of the tranche amount set forth in the tranche notice at a price per share equal to the closing bid price on the tranche notice date. The purchase of such Additional Investment Shares must occur no later than sixty (60) calendar days following the tranche notice date.

Pursuant to the Purchase Agreement, on December 31, 2010, the Investor purchased 400 Preferred Shares and the Company received gross proceeds of $4,000,000. The warrants and common stock underlying this tranche are not exercisable or issuable, respectively, until the date a registration statement for the resale of all shares of common stock issuable pursuant to the purchase agreement is declared effective.

On December 30, 2010, in accordance with the purchase agreement, the Company filed a certificate of designations for the Series C preferred stock with the Secretary of State of the state of Delaware. As previously reported, pursuant to the Certificate of Designations, the preferred shares shall, with respect to dividend, rights upon liquidation, winding-up or dissolution, rank: (i) senior to the Company's common stock, and any other class or series of preferred stock of the Company (collectively, with any warrants, rights, calls or options exercisable for or convertible into such preferred stock, the "Junior Securities"); provided, however, the Series A-1 convertible preferred stock and Series B preferred stock (together, the "Senior Securities") shall rank senior in right of redemption, liquidation, and dividends; and (ii) junior to all existing and future indebtedness of the Company.

Dividends
Commencing on the date of the issuance of any shares of Series C preferred stock, holders of Series C preferred stock will be entitled to receive dividends on each outstanding share of Series C preferred stock, which will accrue in shares of Series C preferred stock at a rate equal to 6% per annum from the issuance date. Accrued dividends will be payable upon redemption of the Series C preferred stock.

Redemption Rights
Upon or after the fourth anniversary of the initial issuance date, the Company will have the right, at the Company's option, to redeem all or a portion of the shares of the Series C preferred stock, at a price per shares equal to 100% of the Series C liquidation value. The preferred stock may be redeemed at the Company's option, commencing 4 years from the issuance date at a price per share of (a) $10,000 per share plus accrued but unpaid dividends (the "Series C Liquidation Value"), or, at a price per share of : (x) 136% of the Series C Liquidation Value if redeemed prior to the first anniversary of the initial issuance date, (y) 127% of the Series C Liquidation Value if redeemed on or after the second anniversary but prior to the third anniversary of the initial issuance date, and (z) 109% of the Series C Liquidation Value if redeemed on or after the third anniversary but prior to the fourth anniversary of the initial issuance date.

Termination and Liquidation Rights
If the Company determines to liquidate, dissolve or wind-up its business, it must redeem the Series C preferred stock at the prices set forth above. Upon any liquidation, dissolution or winding up of the Company, the Holders of Series C preferred stock shall be first entitled to be paid out of the assets of the Company available for distribution to its stockholders an amount with respect to each share of Series C preferred stock equal to $10,000, plus any accrued and unpaid dividends.

The Company has classified the Series C redeemable preferred stock in the equity section in its consolidated balance sheets.

12. WARRANT SUMMARY

Warrant Activity

A summary of warrant activity for the years ended December 31, 2010, 2009 and 2008 is presented below:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (000)
Outstanding, December 31, 2007	104,700,522	$ 0.29	3.55	$ 495
Granted	31,870,465	0.15		
Exercised	-	-		
Forfeited/Canceled	(7,173,036)	$ 0.25		
Outstanding, December 31, 2008	129,397,951	$ 0.26	3.23	$ -
Granted	95,620,697	0.10		
Exercised	(3,019,527)	0.17		
Forfeited/Canceled	(3,373,333)	$ 1.47		
Outstanding, December 31, 2009	218,625,788	$ 0.13	4.35	$ 49
Granted	110,678,762	0.14		
Exercised	(188,874,727)	0.13		
Forfeited/Canceled	(5,498,581)	-		
Outstanding, December 31, 2010	134,931,242	$ 0.12	3.54	$ 14,347
Vested and expected to vest at December 31, 2010	134,931,242	$ 0.12	3.54	$ 14,347
Exercisable, December 31, 2010	134,931,242	$ 0.12	3.54	$ 14,347

The aggregate intrinsic value in the table above is before applicable income taxes and is calculated based on the difference between the exercise price of the warrants and the quoted price of the Company's common stock as of the reporting date.

The following table summarizes information about warrants outstanding and exercisable at December 31, 2010:

	Warrants Outstanding			**Warrants Exercisable**	
Exercise Price	**Number of Shares**	**Weighted Average Remaining Life (Years)**	**Weighted Average Exercise Price**	**Number of Shares**	**Weighted Average Exercise Price**
$ 0.05	1,026,000	2.00	$ 0.05	1,026,000	$ 0.05
0.10 - 0.11	130,445,439	3.56	0.09	130,445,439	0.09
0.38 - 0.40	2,580,636	4.26	0.39	2,580,636	0.39
0.85 - 0.96	486,250	0.39	0.92	486,250	0.92
2.20	72,917	0.63	2.20	72,917	2.20
2.48 - 2.54	320,000	0.30	2.54	320,000	2.54
	134,931,242			134,931,242	

The Company recorded finance costs in the amount of $288,717 in its accompanying consolidated statement of operations for the year ended December 31, 2009, representing the value of warrants re-granted that had previously expired.

On January 22, 2010, the Company issued 1,000,000 warrants to an investor, to purchase the same number of shares of common stock. The term of these warrants is 4.92 years and is subject to anti-dilution and other customary adjustments. The initial fair value of the warrants was estimated at $95,464 using the Black-Scholes pricing model. The assumptions used in the Black-Scholes option pricing model at January 22, 2010 for all warrants issued in connection with these promissory notes are as follows: (1) dividend yield of 0%; (2) expected volatility of 180%, (3) risk-free interest rate of 2.37%, and (4) expected life of 4.92 years.

During the year ended December 31, 2010, the Company issued 95,870,362 warrants to Optimus in connection with its Series B preferred stock, which warrants were simultaneously exercised. See Note 10.

During the year ended December 31, 2010, the Company received $719,636 upon exercise of warrants into 6,663,300 shares of common stock.

13. STOCKHOLDERS' EQUITY TRANSACTIONS

The Company is authorized to issue two classes of capital stock to be designated respectively, preferred stock and common stock. The total number of shares of preferred stock the Company is authorized to issue is 50,000,000, par value $0.001 per share. On September 10, 2009, upon approval by a vote of the Company's stockholders, the Company increased its authorized shares of common stock, par value $0.001 from 500,000,000 to 1,750,000,000 shares, effective immediately. The total number of shares of common stock the Company is authorized to issue is 1,750,000,000, par value $0.001 per share. The Company had 113 and 92 shares of Series A-1 preferred Stock outstanding as of December 31, 2010 and 2009, respectively. The Company had 1,000 and zero shares of Series B preferred stock outstanding as of December 31, 2010 and 2009, respectively. The Company had 1,439,826,362 and 663,649,294 shares of common stock outstanding as of December 31, 2010 and 2009, respectively.

Effective as of April 1, 2008, Jonathan F. Atzen, the Company's Senior Vice President, General Counsel and Secretary, resigned from his positions with the Company and terminated his employment arrangement with the Company. Pursuant to the terms of an agreement between the Company and Mr. Atzen effective April 1, 2008, the Company agreed to (i) pay Mr. Atzen $48,333.33 in cash as a severance payment, (ii) issue a fully vested option to purchase an aggregate of 400,000 shares of common stock pursuant to the Company's 2005 Stock Incentive Plan, as amended (the "2005 Plan"), (iii) issue an aggregate of 936,692 shares of the common stock pursuant to the 2005 Plan, (iv) provide for the vesting of all outstanding stock options held by Mr. Atzen and (v) provide Mr. Atzen and his family with full healthcare and dental coverage for a period of 6 months as was provided to Mr. Atzen during his employment.

Effective as of March 17, 2008, Ivan Wolkind, the Company's Senior Vice President—Finance, Administration & Chief Accounting Officer, resigned from all positions with the Company and voluntarily terminated his employment arrangement with the Company for personal reasons. On April 2, 2008, the Company entered into a Consulting Agreement with Mr. Wolkind. Pursuant to the Consulting Agreement, Mr. Wolkind agreed for a period of 90 days to provide up to 20 hours per week of financial consulting services to the Company including but not limited to (i) assisting with general accounting and investor diligence, (ii) commenting on the structure of proposed financial transactions, (iii) responding to queries regarding ACT's corporate structure, and (iv) reviewing strategic and financial documents as appropriate. As consideration for the services to be provided, the Company agreed to pay Mr. Wolkind an aggregate of $45,834 of which was paid on April 2, 2008. As additional consideration for the services to be provided, the Company agreed to issue to Mr. Wolkind 238,719 shares of common stock pursuant to the 2005 Plan. On May 2, 2008, the consulting contract was terminated with no future payments due.

Between September 29, 2008 and January 20, 2009, certain vendors who had previously provided professional and other services to the Company, assigned invoices for services it asserted it rendered to us in the aggregate amount of $1,108,673 to Outboard Investments, Ltd. ("Outboard Investments"), Ice Capital Holdings, Ltd. ("Ice Capital Holdings"), Tuxedo Holdings, Ltd. ("Tuxedo Holdings") and Galleon Investments, Ltd. ("Galleon Investments"). Between the aforementioned dates, Outboard Investments, Ice Capital Holdings, Tuxedo Holdings and Galleon Investments filed actions against us in the Circuit Court of the Twelfth Judicial Circuit, Sarasota County, Florida. In the actions, these entities asserted that the Company failed to pay the $1,108,673 in principal plus interest due on the original invoices. After negotiations between the Company and Outboard Investments, Ice Capital Holdings, Tuxedo Holdings and Galleon Investments, between September 29, 2008 and January 20, 2009, the Company entered into settlement agreements with each of the above parties pursuant to which the Company agreed to issue Outboard Investments, Ice Capital,Holdings, Tuxedo Holdings and Galleon Investments an aggregate of 260,116,283 shares of the Company's common stock in exchange for satisfaction of all claims totaling $1,108,673.

The following is a summary of invoices settled plus interest, shares of common stock issued in settlement and loss on settlements:

Year ended December 31, 2008	Invoices plus Interest	Shares of Common stock	Loss Recognized*
Outboard Investments	$ 82,316	16,463,302	$ 740,848
Ice Capital Holdings	269,759	102,236,813	2,339,443
Tuxedo Holdings	251,399	102,035,321	2,355,846
	$ 603,474	220,735,436	$ 5,436,137

Year ended December 31, 2009	Invoices plus Interest	Shares of Common stock	Loss Recognized*
Ice Capital Holdings	$ 209,721	26,533,978	$ 2,006,178
Galleon Investments	295,478	12,846,869	2,787,771
	$ 505,199	39,380,847	$ 4,793,949
Total	$ 1,108,673	260,116,283	$ 10,230,086

*The losses were calculated as the difference between the amount of accounts payable relieved and the value of the shares (based on the closing share price on the settlement date) that were issued to repay the accounts payable.

The Court held fairness hearings to review the proposed settlement agreements. After the hearings, the Court issued orders approving the settlement agreements and finding that, assuming the satisfaction of all the other applicable securities laws and regulations, the issuance of the shares to Outboard was exempt from registration under the Securities Act of 1933, as amended. Other than the claims for payment and the settlement agreements, the Company has not had and does not have any relationship with Outboard Investments, Ice Capital Holdings, Tuxedo Holdings or Galleon Investments nor has the Company entered into any other transactions with them either prior to or after the claim and settlement agreement.

On March 5, 2009, the Company settled a lawsuit originally brought by an investor in January 2009, who is an investor in the 2007 and 2008 debentures, and associated with the default on August 6, 2008 on all debentures. As a result of the lawsuit, the Company was required by court order to reduce the conversion price on convertible debentures held by this investor to $0.02 per share, effective immediately, so long as the Company has a sufficient number of authorized shares to honor the request for conversion. During the year ended December 31, 2009, the Company issued 4,847,050 shares of its common stock to this investor in conversion of approximately $97,000 of its 2006 debenture at $0.02 per share, and 1,252,950 shares of its common stock to this investor in conversion of approximately $25,000 of its 2007 debenture at $0.02 per share.

The Company calculated the fair value of the conversion option for the 2007 and April 2008 debentures immediately prior to and after the change in the conversion price, and evaluated the impact of the change in conversion price. The Company recorded the amount of $1,796,368 during the year ended December 31, 2009 in charges related to repricing derivative liabilities as a result of this modification, representing the change in the fair value of the conversion option liability.

On June 30, 2009, an investor submitted a conversion notice in the principal amount of $150,000 into 7,500,000 shares of common stock at $0.02 per share. At that time, the Company did not have sufficient authorized shares to satisfy this conversion notice. On July 6, 2009, by means of a settlement between the two parties, the Company agreed to deliver the 7,500,000 shares of its common stock no later than September 25, 2009. The Company delivered the 7,500,000 shares on September 25, 2009. Further, the Company agreed to provide the investor with an additional $110,000 principal, which is to be upon the same terms and conditions as the original 2008 debenture. Accordingly, the Company recognized a loss on settlement in the amount of $110,000 during the year ended December 31, 2009 for the amount of principal that was added to the 2008 convertible debenture. Additionally, the Company recognized interest expense in the amount of $1,210,021, representing the fair value of the conversion option of the $110,000 on July 6, 2009. The full amount of $1,210,021 was recognized in interest expense in the accompanying consolidation statements of operations for the year ended December 31, 2009 as a result of the debenture's default at the time.

During the year ended December 31, 2009, the Company issued 375,000 shares of its common stock in payment for legal services provided. The Company recorded professional fees in its accompanying statements of operations in the amount of $38,250 during the year ended December 31, 2009.

During the years ended December 31, 2010 and 2009, the Company issued 38,062,887 and 2,122,495 shares of its common stock, respectively, upon exercise of warrants.

During the year ended December 31, 2010, the Company issued a total of 107,051,697 shares of its common stock to its previous chief executive officer and chief scientific officer. Further, the Company is to issue an additional 12,421,101 shares of its common stock to the same officers. The Company recorded $10,752,552 in officer compensation expense during the year ended December 31, 2010 for the value of these shares.

During the year ended December 31, 2010, the Company issued a total of 16,773,597 shares of its common stock to its directors as compensation for services provided as directors. The Company recorded $1,560,213 in board compensation expense for the value of these shares in its consolidated statements of operations for the year ended December 31, 2010.

On February 19, 2010, the Company issued 250,000 shares of its common stock in connection with its Series A-1 financing issue costs described in Note 9.

During the year ended December 31, 2010, the Company issued a total of 95,870,362 shares of common stock upon exercise of warrants issued in connection with its Series B preferred stock. During the same period, the Company received promissory notes in the amount of $13,500,000 from Optimus, in consideration for warrants issued to Optimus. The promissory notes have been included as a separate component of stockholders' deficit at December 31. See Note 10.

In connection with the preliminary injunction discussed in Note 6, the Company delivered to the investor 49,220,665 shares of its common stock.

On December 22, 2010, Optimus CGII, Ltd. ("Optimus") purchased a claim previously brought against the Company in a civil action by Alexandria Real Estate-79/96 Charlestown Navy Yard ("ARE"). In that action, ARE alleged that it was unable to relet the premises and therefore seeking rent for the vacated premises since September 2008. ARE also sought certain clean-up and storage expenses. On December 23, 2010, Optimus and the Company settled the claim in the amount of $8,000,167. During December 2010, the Company issued 55,688,368 shares of its common stock to Optimus in full settlement of this claim. Accordingly, the Company recognized loss on settlement in the amount of $8,000,167 in its accompanying consolidated statements of operations for the year ended December 31, 2010. This settlement ended all claims previously brought against the Company by ARE, and Optimus as bona fide claimant.

On December 20, 2010, Optimus purchased a claim previously brought to the Company in connection with indebtedness to Ropes and Gray LLP for legal services performed between May 2007 and January 2010. On December 21, 2010, Optimus and the Company settled the claim in the full amount of indebtedness, including legal fees, for $2,486,256. During December 2010, the Company issued 17,146,254 shares of its common stock to Optimus in full settlement of this claim. The legal services received from Ropes and Gray LLP had been accrued during the years 2007-2010, in the periods in which these expenses were incurred. The amount due to Ropes and Gray for their services was $2,386,278, and the Company recognized the additional $99,978 as legal expenses during the year ended December 31, 2010. This settlement ended all claims previously brought to the Company by Ropes and Gray LLP, and Optimus as bona fide claimant.

In December 2010, the Company settled a claim brought against it by Optimus related to the Company's inability to previously issue shares of its common stock under the Series B preferred stock warrants. The Company and Optimus settled on the issuance of shares of the Company's common stock to Optimus worth $654,000, which was recognized in financing costs in the Company's consolidated statements of operations during the year ended December 31, 2010. The Company is required to issue 3,222,786 to Optimus to settle this claim in full.

During 2010 and 2009, the Company issued 6,206,961 and 16,673,046 shares of its common stock, respectively, in conversion of its Series A-1 preferred stock.

During the year ended December 31, 2010, the Company issued 711,933 shares of its common stock in settlement of accounts payable in the amount of $55,168.

14. STOCK-BASED COMPENSATION

Stock Plans

The following table summarizes the Company's stock incentive plans as of December 31, 2010:

Stock Plan	Options/Shares Issued	Options Outstanding	Options/Shares Available For Grant
2004 Stock Plan	2,492,000	820,000	370,000
2004 Stock Plan II	1,301,161	1,071,161	230,000
2005 Plan	49,495,484	46,484,958	131,021,494
	53,288,645	48,376,119	131,621,494

On September 10, 2009, upon approval by a vote of the Company's stockholders, the Company increased the number of shares of common stock issuable under the 2005 Plan to a total of 145,837,250 shares, issuable as options or shares of common stock.

Stock Option Activity

A summary of option activity for the years ended December 31, 2010, 2009 and 2008 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (000)
Outstanding, December 31, 2007	11,978,861	$ 0.78	7.16	$ 255
Granted	11,875,734	0.21		
Exercised	(1,200,000)	0.05		
Forfeited/canceled	(8,169,015)	0.53		
Outstanding, December 31, 2008	14,485,580	$ 0.51	7.71	$ -
Granted	14,501,273	0.10		
Exercised	-	-		
Forfeited/canceled	(500,734)	0.51		
Outstanding, December 31, 2009	28,486,119	$ 0.32	8.09	$ 33
Granted	19,890,000	0.11		
Exercised	-	-		
Forfeited/canceled	-	-		
Outstanding, December 31, 2010	48,376,119	$ 0.23	7.56	$ 3,825
Vested and expected to vest at December 31, 2010	46,177,161	0.24	7.48	3,619
Exercisable, December 31, 2010	31,461,060	0.29	6.69	1,762

The aggregate intrinsic value in the table above is before applicable income taxes and is calculated based on the difference between the exercise price of the options and the quoted price of the Company's common stock as of the reporting date.

A summary of the status of unvested employee stock options as of December 31, 2010 and changes during the periods ended December 31, 2010, 2009 and 2008, is presented below:

	Shares	**Weighted Average Grant Date Fair Value Per Share**
Unvested at December 31, 2007	783,814	$ 0.46
Granted	10,735,621	0.21
Vested	(2,372,518)	0.39
Forfeited	(4,377,758)	0.26
Unvested at December 31, 2008	4,769,159	$ 0.23
Granted	14,501,273	0.10
Vested	(9,011,977)	0.13
Forfeited	-	-
Unvested at December 31, 2009	10,258,455	$ 0.13
Granted	19,890,000	0.10
Vested	(13,233,396)	0.11
Forfeited	-	-
Unvested at December 31, 2010	16,915,059	$ 0.12

As of December 31, 2010, total unrecognized stock-based compensation expense related to nonvested stock options was approximately $1,675,000, which is expected to be recognized over a weighted average period of approximately 9.43 years.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2010.

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$ 0.05	820,000	3.62	$ 0.05	820,000	$ 0.05
0.09	12,390,000	9.10	0.09	2,710,314	0.09
0.10 - 0.14	22,001,273	5.86	0.07	16,272,106	0.10
0.21	5,811,669	6.86	0.21	4,305,462	0.21
0.25 - 0.76	1,071,161	4.00	0.25	1,071,161	0.25
0.85	5,604,099	4.09	0.85	5,604,100	0.85
1.35 - 2.48	677,917	4.86	2.04	677,917	2.04
	48,376,119			31,461,060	

The assumptions used in calculating the fair value of options granted using the Black-Scholes option- pricing model for options granted during the years ended December 31, 2010, 2009 and 2008 are as follows:

	2010	2009	2008
Risk-free interest rate	2.3 – 2.8%	2.3 – 3.4%	2.5%
Expected life of the options	5 - 7 years	5 - 10 years	4 years
Expected volatility	175 - 180%	185%	148%
Expected dividend yield	0%	0%	0%

15. COMMITMENTS AND CONTINGENCIES

The Company entered into a lease for office and laboratory space in Worcester, Massachusetts commencing December 2004 and expiring March 31, 2010. On January 29, 2010, the Company signed a new lease to move from its Worcester facility to a new 10,607 square-foot facility in Marlboro, Massachusetts. The lease term is from April 1, 2010 through June 30, 2015. Monthly base rent in 2010 was $12,596. The Company's rent at its Los Angeles, California site was on a month-to-month basis after May 2008. On March 1, 2009, the Company vacated its site in Los Angeles, California and moved to another site in Los Angeles. The term on this new lease is through February 28, 2012. Monthly base rent is $2,170. Annual minimum lease payments are as follows:

For the year ended December 31, 2010		
2011	$	156,816
2012		155,127
2013		157,779
2014		160,431
2015		80,878
Thereafter		-
	$	711,031

Rent expense recorded in the financial statements for the years ended December 31, 2010, 2009 and 2008 was approximately $281,000, $134,000 and $2,183,000, respectively.

Employment Agreement with Robert Lanza—On October 1, 2009 (the "Effective Date"), the Company entered into an employment agreement with Robert Lanza, the Company's chief scientific officer since October 2007. Pursuant to the agreement, the parties agreed as follows:

- Robert P. Lanza will continue to serve as the Company's chief scientific officer, for a term of two years commencing on the Effective Date, subject to earlier termination as provided in the agreement. The term under the employment agreement may be extended by mutual written agreement.
- The Company will pay Mr. Lanza a base salary of $375,000 per annum, which may be increased during the term at the sole discretion of the Company's board of directors. The Company may also pay Mr. Lanza annual bonuses in the Company's sole discretion.
- The Company will issue to Mr. Lanza 30,192,203 shares of free trading common stock from the Company's 2005 Employee Incentive Plan (approved by the Board of Directors in January 2010). There remain 12,421,101 shares of stock to be issued to Mr. Lanza under this agreement.
- If Mr. Lanza's employment under the Agreement is terminated by the Company without cause (as defined therein), the Company will pay Mr. Lanza severance of one year's base salary.

Employment Agreement with William M. Caldwell, IV and Passing-- On February 22, 2010, the Company entered into an employment agreement with William M. Caldwell, IV, who was the Company's chief executive officer and chairman from January 2005 until his passing on December 13, 2010. Pursuant to the Employment Agreement, the parties agreed as follows:

- Mr. Caldwell would continue to serve as the Company's chief executive officer, for a term of two and 1/3 years commencing on October 1, 2009, subject to earlier termination as provided therein.
- The Company would pay Mr. Caldwell an initial base salary of $480,000 per annum, which base salary would increase annually by not less than the annual increase in the consumer price index, subject to increase during the term by a greater amount at the sole discretion of the Company's board of directors.
- Within 10 days of execution of the employment agreement, Mr. Caldwell received a retention bonus of $100,000.
- Commencing in the 2010 calendar year, the Company would pay Mr. Caldwell an annual bonus based on the performance of the Company's common stock, as well as additional bonuses in the Company's sole discretion.
- On February 4, 2010, the Company awarded Mr. Caldwell 85,325,595 shares of common stock.
- If Mr. Caldwell's employment under the Employment Agreement is terminated by the Company without cause, or by Mr. Caldwell for good reason, the Company would pay Mr. Caldwell severance of two years' base salary.

On December 13, 2010, Mr. Caldwell passed away. The Company's Board has appointed Gary Rabin to serve as the Company's interim Chairman and Chief Executive Officer until a permanent replacement is named.

Employment Agreement with Gary Rabin--On December 14, 2010, the Company entered into an employment agreement with Gary Rabin to serve as Interim Chief Executive Officer, Chief Financial Officer and Chairman of the Board. Pursuant to the Employment Agreement, the parties agreed as follows:

- Mr. Rabin will serve in this capacity until the date on which a new Chief Executive Officer commences full-time employment with the Company or, if sooner, the date on which Mr. Rabin's employment is otherwise terminated in accordance with this agreement.
- The Company will pay Mr. Rabin an annual salary at the rate of $480,000 per year.
- Within 10 days of execution of the employment agreement, Mr. Rabin received a one-time fully earned cash signing bonus of $40,000.
- The Company will pay Mr. Rabin an annual performance bonus between 30% and 150% of his base salary.
- The Company issued Mr. Rabin 5,000,000 shares of its restricted common stock and a non-qualified option to purchase another 5,000,000 shares of the Company's common stock, with an exercise price of $0.14 per share.